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Practical Approaches to PVO/NGO Capacity Building

Lessons from the Field

1. *Approaches for Capacity Building Programs*
2. *Activity Design and Development*
3. *Activity Monitoring for Sustainable Results*
4. ***Financial Management***
5. *Institutional Development*

Senegal PVO/NGO Support Project
USAID Project #685-0284

USAID

Monographs by:

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A Description of the Monograph Series

"Practical Approaches to PVO/NGO Capacity Building" is a five-monograph series, which is intended to help the program manager in identifying and supporting sustainable development activities while also building the capacity of implementing organizations - both at the community level as well as with the intermediary nongovernmental organization (NGO). It is based on the experiences of the New TransCentury Foundation Umbrella Support Unit (USU), managers of the USAID/Senegal PVO/NGO Support Project. NTF has been assisted by Yirawah International in providing international short-term technical assistance to the Project. The five monographs include:

1. Approaches for Capacity Building Programs

2. Activity Design and Development (including rapid and participatory appraisal techniques, and logical framework)

3. Activity Monitoring for Sustainable Results

4. Financial Management (including financial analysis, budgeting, and financial systems and procedures)

5. Institutional Development (including participatory institutional diagnosis, and institutional development plan)

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Acronyms & Terminology

IRR	Internal Rate of Return
NGO	Non-governmental Organization
NPV	Net Present Value
NTF	New TransCentury Foundation
The Project	The Senegal PVO/NGO Support Project
PVO	Private Voluntary Organization
USAID	United States Agency for International Development
USU	Umbrella Support Unit (managers of the Project)

1. Context of Financial Management Monograph

1.1. Purpose of This Monograph Series

A series of five monographs has been developed to describe the key elements in instituting a comprehensive program of sustainable development which includes capacity building of the local institutions involved. The series is based on the methodologies and tools developed and/or modified by the managers of the USAID/Senegal-funded PVO/NGO Support Project, the New TransCentury Foundation's Umbrella Support Unit (USU).

Sustainable development is achieved when local institutions are able to strengthen their beneficiaries' ability and capacity to handle programs using their own "know how". USAID, through their reengineering activities, has reemphasized their commitment to development that is sustainable, as well as designed and implemented in a participatory fashion. There are, as a result, an increasing number of projects with the objective of increasing the organizational capacity of client groups, at the community level as well as with intermediary NGOs.

> *Definition*
>
> **Capacity building** programs are intended to strengthen an organization's ability to provide quality and effective services, while being viable as an institution. This means supporting an organization to be *programmatically* sustainable (providing needed and effective services), as well as *organizationally* (with strong leadership and having the necessary systems and procedures to manage by); while assuring that it has sufficient *resources* (human, financial and material) which are utilized well. Finally, this support must help the organization understand the external environment (political, economic, and social) it operates in, and to develop a relationship with it that is sufficiently stable and predictable

1.2. Objectives of the Financial Management Monograph

This monograph has three main objectives:

- To identify and describe four key elements for the successful financial management of an NGO and its activities. This includes addressing weaknesses found in NGOs in managing financial aspects of project activities (financial viability or profitability; project budget development and management) and weaknesses of NGOs in addressing financial viability of their organizations (organizational budget development, management; financing plans);
- To document the types of analyses that can be made to permit conclusions on whether an organization can manage the financial support requested, and to determine the type(s) of support that may help strengthen its capacity in financial management; and
- To present examples of the impact and lessons learned from technical assistance and training support providing the USU to the NGO community in Senegal.

> Information collected during field studies of the status of NGO financial management revealed a lack of competent NGO staff in the area of financial management. In many cases, NGOs were using an inexperienced staff member, friend or family member with little or no financial training. These organizations generally lacked formalized procedures for control and documentation of finances, or followed procedures that were inappropriate for the situation.

1.3. Implementation Approach of the PVO/NGO Support Project

The Project was intended to develop and implement a program which was balanced and participative, and which would lead to the development of a more self-sufficient NGO community, which in turn would be able to assist the development of a more self-reliant local population.

The implementation approach is characterized by two distinct components; grants implementation and capacity building. The skills developed through capacity building support are exercised and improved upon by direct application in the implementation of project activities at both the NGO and community level that is, "learning by doing." The Project approach cycles through three phases:

1. **mobilization:** introducing the Project to potential participants and partners and updating baseline conditions, thereby getting inputs for and developing Project implementation strategies and methodologies;

2. **activity identification:** including the tasks necessary to identify, select, and sign grant agreements for the implementation of locally-initiated development activities; along with the parallel support to those potentially receiving grants to increase their capacity to, in an inclusive manner, identify community-level needs and design corresponding programs of response whose implementation is feasible;

3. **activity implementation:** including tasks at community, NGO and project management/donor level to assure effective implementation of activities and utilization of resources; along with organizational support in project and organizational management, development of resources and the transfer of these skills, systems or procedures to NGO and community-level partners.

The successful execution of these three phases leads to developments that are organizationally sustainable in the long run, and that have impact in the communities they serve.

In the following chapter, a detailed outline of the NGO Support Project approach to financial management is described and the four key components identified.

2. Methodology/Approach to Financial Management

2.1. Introduction

Financial management has long been considered a routine activity by NGOs, important only to specialists. Many NGOs fail to realize though, that in addition to technical competence, knowledge of financial management is essential in order to qualify for grants and to establish sustainable development activities. In the past, many of the smaller NGOs in Senegal did not have accountants or accounting systems in place to monitor the allocation of financial resources. Administrative and financial procedures were viewed as bureaucratic and of secondary importance compared to technical assistance to beneficiaries. This attitude is now changing as NGOs begin to receive funds from several sources in the execution of development activities, and donors impose more stringent requirements on NGOs to demonstrate their abilities in financial management.

Financial management is the combination of activities which includes the acquisition of funds, the allocation of financial resources and the follow-up on their use. The two principal functions of financial management are: "financial accounting" (what occurred in the past) and "management accounting" (how to use funds to achieve the organizations objectives). This distinction is one of perspective and orientation; and the two are interdependent.

2.2. General Problems Encountered by NGOs in Financial Management in Senegal

One of the greatest handicaps facing NGOs in Senegal is their lack of experience and knowledge in managing financial resources. The role of "management accounting" is not well understood. The common perception among many NGOs is that financial accounting is necessary to receive external funds, and that those who handle this function do not need to be involved in the management of the organization. Financial reports are therefore not available in a timely manner to be used for management; and/or are ignored by the managers.

Another problem is that within the organization, there is usually only one person designated to handle all cash transactions and/or to sign checks. Consequently, this system often creates cash disbursement bottlenecks. An even greater concern is the lack of invoices, receipts and other documentation necessary to keep records of financial transactions and required during auditing.

The lack of control of funds is an additional problem commonly experienced among NGOs. For example, few have systems in place to assure that equipment and funds are properly used and secure. This is particularly a problem for NGOs working in multiple sites since they must be able to control project goods and materials that are being transported and stored in different areas.

2.3. Characteristics of the USU Approach to Financial Management

There are three key characteristics to the USU financial management approach. First of all, the approach looks at financial management at both the activity and NGO organizational level. At the activity level, the NGO must account for the expenses of a particular activity funded by grants or other external sources. At an organizational level, the NGO must manage the day-to day variable and fixed expenses of its entire operations, including its portfolio of development activities. At both levels, the NGO must also interact with a host of other organizations. Figure 1 illustrates these interactions among an NGO and its partners. These partners include government, personnel, consultants, clients with income-generating activities, financial institutions, donors and suppliers.

A second characteristic of the approach is careful planning during the activity design phase. At the beginning of the grant process, USU reviews proposals and then conducts field assessments of NGO financial and administrative systems and procedures. At this time, the USU also determines the financial feasibility of the proposed activities. Before an NGO receives a grant, the USU provides support in modifying and finalizing proposed activities and budget in light of field assessments to better match the NGO's capacity to manage and incorporate potentially financial viable activities.

A third characteristic of the financial management approach is "learning by doing". The USU emphasizes technical assistance over traditional training, providing NGOs with individualized support on managing finances for activities throughout implementation through field visits and monitoring of financial reports. NGOs who have received grants through the Project must submit monthly financial reports. These reports allow the USU to identify weaknesses and to determine the types of technical assistance to provide to each NGO in order to strengthen financial management.

2.4. Four Component Approach

In order to address NGOs deficiencies in the control, coordination and utilization of funds, the USU has developed an approach that targets four key components of financial management:

1. financial viability of project activities,
2. NGOs operational budgeting,
3. systems, procedures, and utilization, and
4. management of revenue sources.

These components, when combined, enable an NGO to more effectively manage its finances.

Financial viability or feasibility of an activity indicates how well an activity can generate income to offset costs (or make profits, if so intended) which is a key to the sustainability of the activity for which a grant is sought. Budgeting enables the NGO to identify and differentiate between different revenues and costs at the activity and organizational level. The USU has developed a grid of standard costs for equipment, materials as well as for NGO operating costs such as salaries, rent and utilities. Systems, procedures, and utilization addresses how the NGO should procure, administer and secure funds for various functions. The final component, management of revenue sources, provides a strategy for NGOs to identify and obtain funds necessary to cover the costs of their ongoing operations and project activities.

2.4.1. Financial Viability of Project Activities

Description: Financial viability analysis is used by organizations to determine the feasibility and potential sustainability of income-generating activities. It allows one to assess whether or not an activity implemented by an NGO will be financially sustainable during a given time period. The USU uses financial viability analysis during their assessments of NGO activities. NGOs also use financial viability to calculate the payback period of various development activities and to determine the profitability of various income-generating activities.

There are several advantages to using financial viability analysis. Assessing the financial requirements and potential profitability permits the project manager to minimize the risk and maximize the gains of a particular activity. At the community level, financial viability allows beneficiaries to have information on the potential results of their efforts.

Problems Encountered: When the USU first began operations, they observed that market analyses conducted by NGOs tended to be theoretical, and feasibility analyses were typically too general to be useful. These studies were often based on information collected from a location other than the site of the proposed activity. Minimal attention was placed on determining appropriate pricing or on how to account for all costs, especially on distribution, transportation and marketing. Financial risk analysis was an unknown concept.

Another problem encountered was that many NGOs did not have a for-profit mentality and tended to believe that promoting income-generating activities in a community was not in their mandate. Therefore, they lacked the skills to determine financially viable activities and enthusiasm to implement activities that entail supplying credit and loans to beneficiaries.

USU Interventions: One of USU's main focuses has been to encourage NGOs to move from a national to a local analysis of financial viability. This involves conducting market studies in the location where the activity is to be implemented in order to collect reliable prices of goods and services. Analyzing information collected at a more local or community level allows NGOs to better understand local conditions and determine more realistic budgets for their development activities.

The USU has also assisted NGOs to develop procedures for carrying out financial viability studies of project activities. There are several different steps involved in this process (See Box). First of all, the organization or group must decide on the type of goods or services to sell. The second step is to determine the demand for these goods or services in the targeted community. This is accomplished by examining past business successes and failures in the community and estimating the future demand for the product or services. The third step is to decide on a operational structure for providing goods and

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services, determining responsibilities for each person involved in the activity. The fourth step is to calculate the expenses to produce the goods and services. The fifth step is to estimate sales income. These calculations are then presented as a budget. The sixth and final step before deciding to implement the activity is to carefully analyze whether or not the activity is viable, based on the demand analysis, organizational strategy and business plan.

The 6 Steps to Financial Viability Analysis:

1. Decide on the type of good or service to sell
2. Determine demand for good or service in the community
3. Decide on operational structure
4. Calculate expenses to produce the goods and services
5. Present as a budget
6. Reflect whether or not activity is viable

Other measures of project worth such as Net Present Value (NPV) and Internal Rate of Return (IRR), are not currently being used by the Project or NGOs because the more basic feasibility analysis is sufficient for current needs and capabilities. These measures, when used during project planning, can indicate whether or not certain activities will be financially viable.

2.4.2. NGOs Operational Budgeting

Description: Budgeting, the second financial management component, allows the NGO to identify and quantify each of the different types of "inflows" or revenues and "outflows" or expenses incurred over a given time period. This section examines the sources of expenses and revenues as well as management issues in preparing budgets for NGOs.

Problems Encountered: Over the past four years, USU has encountered a number of problems with NGO budget proposals for development activities. First, many NGOs fail to identify and include all costs associated with implementing an activity. For example, the costs to develop and implement training programs, trainer salaries and training materials were often overlooked or omitted from budgets.

Another problem is that NGOs have difficulty identifying costs shared between different project activities. They also have problems allocating capital equipment costs. Budgets often do not differentiate between fixed costs such as NGO office rent and utilities, and variable costs that are activity-dependent. NGOs often do not understand legitimate costs to include in budget requests, especially in the category of indirect/fixed costs.

Valuing labor provided by the communities they work with was another difficulty for NGOs in budget preparations. Many of the beneficiaries working with the NGOs provide payment-in-kind contributions to various development activities. Therefore, the NGO must calculate the labor costs into the budget based on its opportunity cost, which is usually based on local wages. Beneficiaries also contribute produce or other goods to support different activities. These items must also be valued at the community level.

Large international NGOs experienced difficulties transferring from manually-based to computer systems linked into the home office systems. They also had problems isolating costs in-country. In small organizations, basic budgeting skills were lacking as well as the ability to handle multiple activities to meet the requirements of multiple donors. They therefore had to learn to differentiate among costs related to a particular activity and those costs from general operations and non-funded activities.

USU Interventions: The USU has assisted NGOs both in determining the cost and revenue elements in budgeting; how to differentiate between direct, shared and general costs; and how to value costs such as payments-in-kind.

Through individualized training, USU has helped NGOs to understand the different types of expense categories that must be included in a budget. These categories are highlighted in

Table 1. The first category, direct costs, are those costs that are 100 percent allocable to the proposed activity. Examples of this are revolving funds, training of beneficiaries, project manager salary, and equipment and materials used for this activity.

The second category, shared costs, are those costs that are shared between the proposed activity and other activities which can be reasonably identified, such as a trainer working on multiple activities. Indirect expenses, the final category, are those costs which an NGO incurs whether or not an activity is implemented. Examples of general expenses are receptionist and accountant salaries and central office rent. Typically, the USU recommends allocating a percentage of the general costs to each activity. For USAID-registered NGOs, this allocation is formalized in terms of a negotiated indirect rate (NICRA).

The other half of the budget equation is identifying and calculating the various sources of revenue to include in the budget. USU assists NGOs to derive organizational/operational cash flow and also to define the sources of revenues. There are several sources of revenue or inflows to include in an activity budget. The first of these is from external sources such as grants or other types of financial assistance from donor agencies and/or government. The second source of revenue is from internal sources such as income-generating activities. At the activity level, examples of this are beneficiaries repayments of revolving loans to finance small enterprise initiatives or the sales of produce from community gardening projects. In each case, the NGO estimates the cash inflows during the

Table 1: Budget Categories of Costs

Type Of Costs	Category	Examples	
Direct	Human Resources	Personnel (Permanent, consultants, assistants) Salaries Fringe benefits	
	Investments	Buildings Material and office furniture for activity Revolving funds	
	Training	Seminars Presentation Visits Transport Per diems	Materials Study Tours Food
	Monitoring/Evaluation	Consultant fees Per Diems Logistical expenses	
	Operations	Office consumables (paper, pens, notepads) Fuel/oil that is activity related	
Indirect	General	Communications (telephone, fax, etc) Water, electricity, rent, maintenance Administrative expenses/support	
	Other	Head Office	

Source: Senegal NGO/PVO Support Project, Project Design Seminar, 4-6 and 18-19 May 1992.

course of the year and subtracts expenses to derive the final year-end balance.

For revolving funds, the USU adds a separate line item under direct costs for community revolving funds which are initially part of a grant given to an NGO. These funds will ultimately be left with and managed by the community participating in the activity as part of the sustainability of community level activity.

Once the NGOs have clearly identified all of the expense and revenue sources, they develop a budget for programmed activities utilizing the format shown in Table 2. A unique feature of this format is the category of institutional support.

Table 2: *Model Format for Detailed Budget*

Items	YR 1	YR 2	YR 3	Total Activity Cost	Beneficiary/NGO Participation	Total Grant Request
Direct Costs: human resources equipment, infrastructure operations training monitoring and evaluation revolving funds						
Sub-Total						
Shared Costs: human resources equipment, infrastructure operations training						
Sub-Total						
Indirect Costs: human resources equipment and Infrastructure monitoring and evaluation						
Sub-Total						
Institutional Support human resources equipment and infrastructure training and study trips operations other						
Sub-Total						
GRAND TOTAL						

Source: Development Tools for Budgetary Analysis and Project Finance, Final Report USU February 1993 costs.

The institutional support section, along with general costs compose the NGOs overhead costs. Institutional support costs are those overhead costs that are covered by activity grants. These costs decrease over the length of the grant, as the NGO increases its capabilities to access additional funding sources. This type of a format permits the NGO to visualize more clearly how funds are being disbursed among functions of the organization.

A comprehensive budget can assist NGOs in many different aspects of financial management. First of all, it can act as a management tool for the NGO. At the end of a quarter or the fiscal year, NGOs can use the budget as a tool to compare estimated revenues and expenses against the actual figures of transactions throughout the year. This practice enables NGOs to gauge how well they estimated financial inflows and outflows which, in turn, is useful when preparing future budgets and for making adjustments during the year.

Another value of more structured budgeting is in managing multiple activities. This involves preparing both comprehensive and separate budgets to differentiate the revenues and costs associated with different activities. For example, if an NGO receives grants from two different donors, separate budgets are prepared for each. This enables the organization to better account for resources used for each activity.

2.4.3. Systems, Procedures and Utilization

Description: Systems, procedures and utilization refers to the systems established by NGOs to manage their internal resources. Financial and administrative systems consist of the documentation and procedures that are necessary to formalize the financial and administrative flows of information between the organization and its internal and external partners (staff, government, financial organizations, clients, financial institutions...etc). Figure 1 illustrates these interactions.

As depicted in Figure 1, the types of forms and documents used between the NGO and its partner include: bank journal, work contract, bank statements, administrative procedures manuals, project reports and work contracts.

There are several advantages to using these documents to formalize relationships between NGOs and their partners. First of all, it permits transparency. It also clarifies the transactions and assures better security for these transactions. Finally, it is a useful organizational tool, permitting NGOs to control the disbursement of goods and services in times of scarce or limited resources.

Problems Encountered: The USU discovered early in the Project that many NGOs did not have proper documents for financial and administration purposes. Local organizations were accustomed to verbal agreements and did not carefully document financial transactions among internal and external partners. Many also did not have adequate control systems in place, especially to monitor fuel and equipment.

USU Interventions: The USU provides multiple interventions to assist NGOs with financial and administrative systems. First of all, they have developed a set of standard formats to assist NGOs in documenting the purchase, sale and inventory of project material and equipment as well as to keep better financial records for auditing. The USU also requires NGOs to submit monthly financial reports which are reviewed, analyzed and returned with comments to organizations that suggest ways of strengthening different systems and procedures within the NGO. The types of forms used for various operations in the NGO are described in the following subsections.

There are six main elements described: human resource management systems, security systems, management of fixed assets and inventory, procurement systems, cash management and revolving fund management.

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2.4.3.1. Human Resource Management Systems

Description: Human resource management systems refer to an organization's systems, controls, and procedures for managing its personnel. These procedures allow an organization to clearly define the functions and expectations of each of its employees and to document their job performance and financial renumerations received.

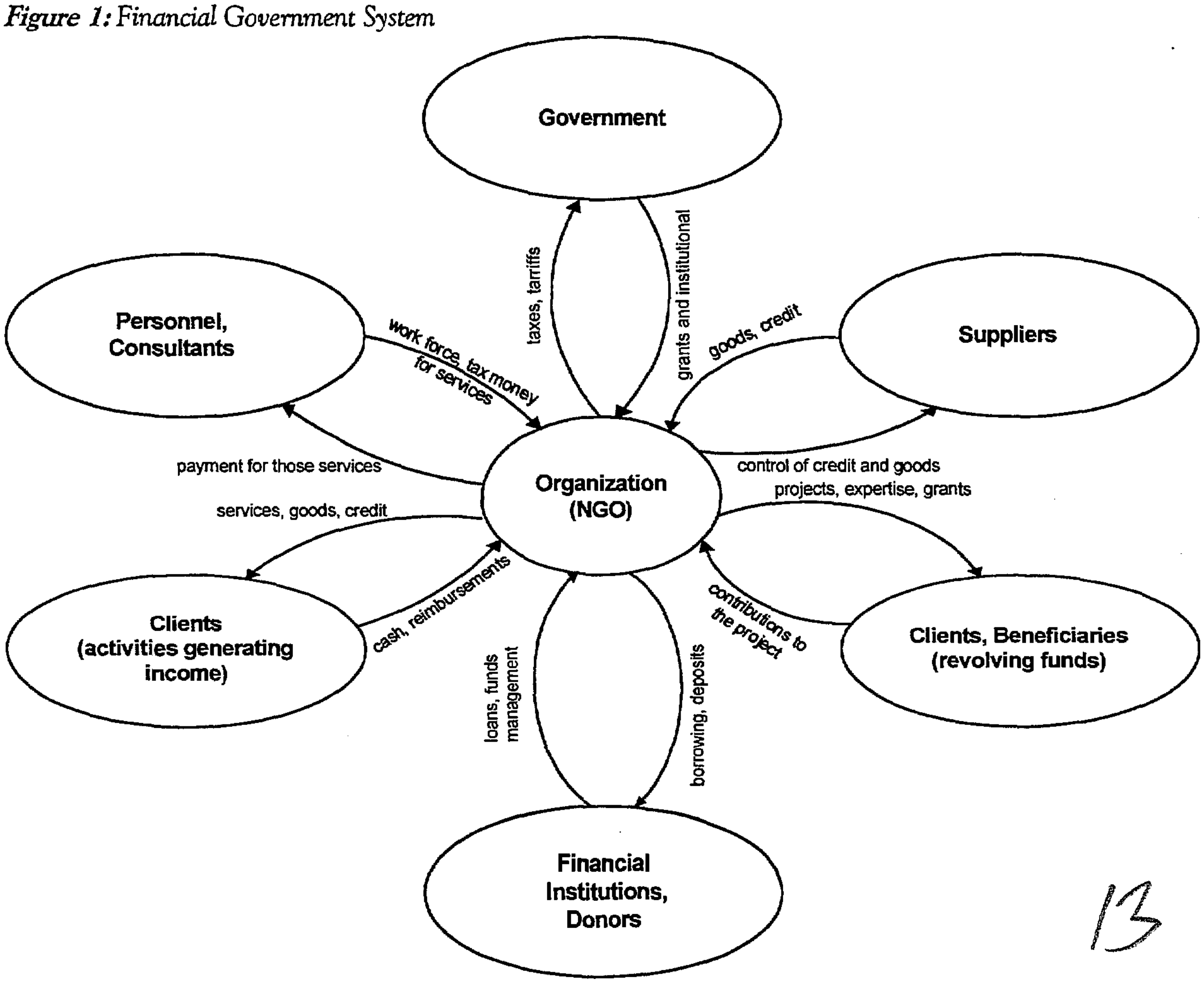
Problems Encountered: There are several difficulties encountered by NGOs with human resource management systems. First of all, personnel in some of the NGOs were unclear of their job responsibilities since they did not have scopes of work. In several cases, NGOs were not documenting employee attendance. Consequently, personnel were sometimes absent from work without justification.

Several NGOs had also not developed work procedures acceptable to all personnel nor meeting the legal requirements of the State. For example, there were often problems with employees regarding holiday schedules. Work rules within the organization were also sometime ambiguous. Another major problem was that many staff did not receive medical coverage.

USU Interventions: Below are the documents that the USU has used in assisting NGOs to manage their human resources;

- *work codes (legal requirements for personnel)*
- *employee files/records*
- *attendance/time sheets*
- *employee registry*
- *payment records*
- *fee/salary history*
- *payment receipts*

Figure 1: *Financial Government System*



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The results of implementing a human resource management system is that it permits the NGO to more easily determine the number of personnel that are necessary for various activities, encourages the respect of standards and procedures, and clarifies the relationships between personnel within and outside of the organization. Another major advantage is that it encourages the NGO to consider the legal aspects of employer/employee relationships by more closely following work codes.

2.4.3.2. Security Systems

Description: Another means of improving financial management systems involves the security of goods and materials. This includes both the security of cash and of material goods belonging to an NGO. USU encourages NGOs to store cash in safes and to carefully control and protect their merchandise and equipment.

Problems Encountered: The primary difficulty encountered by NGOs is the lack of insurance coverage for Project goods. Insuring NGOs against burglary or fraud in Senegal is expensive and is some areas, is not available. Therefore, the risks of not securing cash and equipment are great. Despite these risks, many NGOs had not taken the proper precautions to secure materials.

USU Interventions: Through USU interventions, NGOs have developed improved security systems for financial management. More accurate record-keeping and better physical controls such as locks and guards at activity sites has improved security. The types of documents USU has introduced to improve NGOs security systems are:

- *administrative and financial procedures manuals*
- *memorandums of understanding*
- *minutes from meetings*

This system has resulted in a better flow of information and operations of goods and finances as well as improving transparency among NGO staff.

2.4.3.3. Management of Fixed Assets and Consumables

Description: Fixed assets are durable goods that are used by NGOs at the beginning of operations for a single time. Examples include office furniture, machines etc. Consumables, on the other hand, are expendable goods such as office supplies and fuel for transportation. Through assistance from the USU, NGOs learn how to value, record purchases and manage both types of goods.

Problems Encountered: USU staff found that, at the beginning of the project, the majority of NGOs did not maintain clear documentation on the purchasing costs and condition of equipment. In most cases, depreciation on equipment had not been calculated. Fuel and other consumables were not carefully controlled. Consequently, NGOs often experienced shortages of materials and supplies at the end of the month since they were not aware of their stocks.

USU Interventions: USU introduced a number of standard forms to assist in the management of fixed assets and consumables. These include:

- *inventory list*
- *depreciation tables*
- *stock cards*
- *property logs*
- *records of consumables*
- *fuel consumption records*

Two of these forms, property logs and records of consumables, are illustrated in the following two tables. Consumables records permit the NGO to monitor the quantity of different consumables on a daily basis. Property depreciation logs record equipment and depreciation over a given time period. Other examples of these forms are located in the appendix.

USU conducts regular field visits to NGOs and their activities sites to provide individualized training and feedback on how to complete these forms. NGOs learn how to value equipment based on depreciation and to better plan for their fuel and material needs.

Success Stories: NGOs benefiting from this USU support report that they now have better control over the movement of their inventory and capital equipment. NGOs are now more aware of the purchases and/or acquisitions in the organization, dates of acquisitions and their general value. Staff are able to quickly locate where goods are stored, to know the physical condition of goods, to improve on the rationing of goods in use and to control the rate in which supplies are being used.

2.4.3.4. Procurement Systems

Description: Procurement is the system and procedures involved in making purchases of goods and services. Examples of this include the purchase of materials and equipment such as office furniture and vehicles, as well as the purchase of training or consultant services.

Problems Encountered: As with inventories, USU discovered that many NGOs did not have adequate procurement systems. Therefore, many NGOs purchased goods and services that did not fit their needs and whose prices were inflated. NGOs seldom included any mention of commodity specifications for equipment requested. For example, an NGO purchasing a tractor would fail to indicate the brand name, horsepower, or other special features desired. As a result, the wrong type of tractor could be purchased or quotes from several suppliers could not be compared.

Another problem with the pre-existing procurement systems was that there was usually only one person in charge of approving all purchases. This often created bottlenecks and did not provide sufficient control over the purchasing function.

Table 3: *Records of Consumables*

Activity:______ Item:______ Unit Price:______				
Date	**Entries**	**Withdrawals**	**Balance**	**Observations**

Table 4: *Property Depreciation Logs*

Item	Value of Acquisition 1	Date of Acquisition 2	Usable Life 3	Date of Depreciation 4	Annual Depreciation 5 = 1/3	Monthly Depreciation 6 = 5/(1*2)	Obsns

USU Interventions: There are several documents that the USU developed to assist NGOs in their procurement systems such as:

- *proforma invoice*
- *purchase requisition*
- *reception of materials voucher*
- *Purchase order*
- *Receiving report/records*
- *Consultant services*

The most important of these forms are presented in the appendices.

In addition to providing these forms, USU assists NGOs to develop a purchase approval process, which requires the signature of three different staff members. This system provides better security of transactions and transparency since more staff members are involved in the process. Before making a major purchase, proformas from three different sources are required which enables the NGO to locate the best merchandise at competitive prices.

2.4.3.5. Cash Management

Description: Cash management involves overseeing the balance of cash in a bank account as well as outstanding receipts from funds in transit between the organization and other financial sources. This is essential for NGOs to assure that they have sufficient funds to cover expenses during any given time period.

Problems Encountered: The main difficulty encountered prior to USU interventions was that NGOs were not aware of their current cash position, since they did not have the proper documents to monitor cash flows. Consequently, the NGOs sometimes overdrew on their bank accounts thus receiving penalties, or were unable to pay certain expenses including staff salaries on time.

USU Interventions: The creation of a good cash management system has permitted NGOs to follow the movement of funds, receipts and expenses, more easily. By recording daily cash transactions, the NGO can avoid the problems described above. The types of forms and documents used in the management of cash are:

- *petty cash journal*
- *bank journal*
- *bank statement*
- *bank reconciliation*
- *grant fund reconciliation*
- *budget monitoring*
- *balance and verification of accounts*

Three of these forms: the petty cash journal, bank reconciliation and monthly bank reconciliation of grant funds forms are presented below. Examples of many of the other forms are located in the annexes of this monograph.

The petty cash journal allows the NGO to keep daily records of their balance of cash as seen below in Table 5.

Table 5: Petty Cash Journal

Date	Name of Recepient	Deposit	Withdrawal	Balance

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The bank reconciliation form in Table 6 is especially important for cash management since it permits the NGO to:

- rectify the errors and omissions of the bank and NGO;
- detect frauds and lost checks;
- monitor the advances made by the Project;
- avoid writing checks without an adequate balance;
- monitor the automatic banking operations
- monitor the order of payments made to the bank

Table 6: Bank Reconciliation Form

USAID PVO/NGO SUPPORT PROJECT

NGO:______________________
Project:________________
Date:______________________
Period From:______**To:**______

BANK RECONCILIATION

Balance of Bank Statement
Less : Outstanding Checks:

Check No.	Date	Amount
________	________	________
________	________	________

Add :Deposits in Transit:

Check No.	Date	Amount
________	________	________
________	________	________

Balance Reconciled According to Bank Statement: ________
Bank Statement Balance: ________

Less:
- **-Commissions and Bank Fees** ________
- **-Payment made by Bank and not Recorded in the Bank Journal** ________

Add:
- **+Bank interest** ________
- **+Deposits received by the Bank and not recorded in the Bank Journal**

Deposit	Date	Amount
________	________	________
________	________	________

Balance Reconciled according to Bank Journal: ________
Signature:______________________________

The monthly reconciliation of grants funds in Table 7 enables the NGO to determine financial inflows and outflows of an activity. Throughout the NGO budget, the organization can identify how grant money is being utilized to fund various NGO direct, general and shared costs.

Table 7: Monthly Reconciliation Of Grant Funds

USAID PVO/NGO SUPPORT PROJECT **NGO:**________ **Project:**________ **Date:**________ **Period From:**_____ **To:**_____	**Amount**
1. Funds Available At The Beginning Of The Period **(Must equal line 5 on the last report)**	
2. Grant Funds Received During This Period Date Amount Date Amount Date Amount Total	
3. Total Funds Available During This Period (3 = 2 + 1)	
4. Indicate Below The Dispersement During The Period	XXXXXXXXXXXX
NGO BUDGET	XXXXXXXXXXXX
A. NGO/Activities **1-Direct Costs**	
1.1 Human Resources	
1.2 Investments	
1.3 Operations	
1.4 Training	
1.5 Monitoring and Evaluation	
1.6 Revolving Funds	
Sub-total Of Direct Costs	
2. Shared Costs	
3. General Costs	
4. Institutional Support	
Total NGO/Activities	
5. Available Funds At The End Of The Month (must equal the balance of the bank journal and the advance column balance)	
Brief commentary of disbursments and advances Signatures and Dates of NGO	

2.4.3.6. Revolving Fund Management

Description: Revolving funds are funds to assist beneficiaries in financing various income generating activities. The objectives of the funds are two fold: to provide credit to beneficiaries and to encourage responsible financial management at the community level. These funds help to begin new enterprise ventures that will endure after the life of the grant. In addition to credit, funds can also be provided to beneficiaires in the form of equipment such as a mill or irrigation pump.

The key to success of revolving funds is choosing financially viable and durable income generating ventures. The participation of beneficiaires in identifying these activities is crucial and financial analyses as described earlier in this monograph must be conducted.

The funds are managed by the NGO and beneficiaires. All financial transactions utilizing these funds at the activity level require the signatures of the NGO and a community group-appointed representative.

Problems Encountered: There have been several problems encountered by the USU in assisting NGOs and beneficaries in setting up and managing revolving funds. First of all, the installation process is often becomes lengthy when it is difficult to find someone resposnsible and trusted in the community to act as the community group's representative. Another issue is that many beneficiaries do not have bank accounts. Therefore, the Project and NGO must assist beneficiaries to solve these problems before the system is installed.

Revolving funds are sometimes criticized for creating credit dependancy among beneficiaries over time. An additional concern raised is that such as system may not provide equitable development in a community. Revolving funds are, however, an important element in development activities with an economic focus and are especially effective when integrated with other development activities.

USU Interventions: The USU has assisted several NGOs and beneficiaires to set up revolving funds. The basic steps followed during the installation of a fund are as follow

1. Work with the NGO to set up the revolving fund system
2. Train the NGO accountant on how to manage the fund
3. Assure that the basic structures and system (local banks, beneficiaries with accounts) are in place
4. Train the community group-appointed representative on how to manage the fund

The USU also requires NGOs and the community to conduct market studies during the design phase to identify financially feasible activities for the revolving fund. They provide the forms such as the "Provisional Operations Records" and Bank Journals (see appendices), so that NGOs can more easily manage the fund. NGOs submit quarterly reports to USU for monitoring purposes. Accounting for the revolving fund is kept simple and does not include taxes, interest and in many cases, depreciation on equipment.

Success Story: An international NGO successfully implemented a revolving fund in which the community reimbursed all 503,000 FCFA borrowed within a three year period. One of the activities under the fund was financing a village store which from an initial investment of 500,000 FCFA was able to earn 1,200,000 FCFA within the first year.

2.4.4. Identifying and Managing Revenue Sources

Description: One of the most important aspects of an NGO's financial management plan is its ability to locate and utilize various sources of revenue to implement its development activities. Revenue source management refers to the strategy and implementation plan developed by an NGO to accomplish this objective. NGOs generally receive financing from two different categories of sources:

1. **External financing** through grants or donations from the donor community and government;
2. **Self-financing** through income-generating activities managed by the NGO and member fees.

Problems Encountered: In the past, many NGOs have lacked the contacts and experience necessary to manage income-generating activities or to market their services. Local NGOs have been particularly vulnerable since many have also never received grants from the government or the international community.

Another problem encountered is that NGOs are often dependent on the proceeds from a single grant to finance their operations. Therefore, after the grant terminates, they are sometimes forced to terminate operations if they can not locate another donor for funding.

USU Interventions: To date, the Project has not focused heavily on providing technical assistance to NGOs in identifying and managing revenue sources. There are, however, two areas where the USU hopes to develop future programs to support NGOs; strategic planning for financial stability and managing finances.

1. Strategic Planning for Financial Stability: Strategic planning for managing revenue sources takes into consideration three aspects: appropriateness of the revenue source, mix of revenue sources and NGO promotion to the donor community and potential fee-paying clients.

- **Appropriateness of revenue source:** This involves matching an appropriate funding source with the NGO's particular interests or expertise. For example, an NGO that specializes in building irrigation systems should seek funders whose development focus is also in agricultural development or hydrological engineering. All too often, NGOs fail to identify donors with similar interests, preferring to adapt their development activities to the funder rather than seeking a funding source that matches their interests and skills. In the same manner, NGOs often fail to do a basic feasibility study of services which could be offered on a fee-basis.

Another aspect to appropriateness of revenue source is researching alternative funding options. There are many resource materials that NGOs can exploit to learn more about funding agencies such as annual reports and project papers. Researching donor agencies enables the NGO to understand where the donors operate, the size of their grants, the types of projects financed and the terms of these grants. This information is valuable to determine if the donor is the type of organization that best fits the NGOs particular needs. Another option is to investigate income-generating activities that the NGO can implement. NGOs that are member organizations can investigate ways to generate revenues through member services.

A final aspect to consider in the appropriateness of revenue sources is the legal implications for implementing income-generating activities. "Non-profit" laws may restrict NGOs from developing certain types of income-generating activities.

- **Mix of Revenue Sources:** A common error among NGOs is not adequately determining the right mix or composition of revenue sources. Some NGOs seek and are awarded grants from "too many" funding sources. In such a case, the NGO's portfolio of activities often becomes unmanageable as it tries to respond to the various requests and to distinguish between the overlap in activities financed by its multiple funders. Conversely, some NGOs rely entirely on one funding source. This too can create difficulties for the NGO since, if the funder reorients its development strategic plan or eliminates funding for certain activities, the NGO may be severely effected. Therefore, the Project advocates that NGOs seek a manageable number of funding sources.

- **NGO Promotion:** The final aspect in strategic planning is promoting or marketing the NGOs services to the donor community or potential client market for services. Although NGOs may investigate different funding sources, most of the local NGOs have never developed promotional materials on their organization to distribute to donors. They also have not actively solicited financing from funding sources. Therefore, many donors are unfamiliar with the names and activities of these NGOs. In order to overcome this problem, the USU is considering developing a plan to provide technical assistance on activities promotion. NGOs seeking to develop fee-for-services programs must also develop promotional materials as would any for-profit business organizations.

2. **Managing Finances:** This section addresses actions to take for managing revenue sources during the implementation phase of an activity and for ongoing NGO operations.

- **NGO Governing Board:** The USU recommends that NGOs establish an active governing board to oversee financial decisions related to project activities as well as the overall NGOs operations. The board permits members of the NGO to regularly discuss policy issues and develop strategies for contacting and soliciting funding from external sources. It also results in better transparency among NGO staff on financial matters.

- **Accountability to Stakeholders:** The final aspect to financial management of revenue sources is addressing the requirements of stakeholders. For government, this may include paying taxes on income-generating activities. For donors, these requirements might be financial reports and budgets. The budget formats that the USU has suggested have been accepted by other donors as USAID requirements tend to be very rigorous.

3. Conclusions

There are several conclusions concerning the implementation of financial management systems by NGOs in Senegal that can be extrapolated to NGOs elsewhere. To begin with, most NGOs are still weak in managing financial resources, although improvements have been observed in budget preparations and monthly financial reporting. Most are becoming more comfortable with using financial systems and procurement procedures to acquire goods and services and understand the value of maintaining accurate records on all accounts.

A second point is that many NGOs in Senegal have not systematically sought funding nor promoted their services to the donor community. Many donors are still unaware of the identities and activities of many indigenous NGOs. Consequently, the NGOs may be missing opportunities to receive funding from certain donors. NGO promotions is an area that the USU hopes to assist NGOs with in the future.

A third observation is that many NGOs in Senegal have not pursued actively the promotion of income-generating activities for their own organizations. In order for NGOs to create sustainable organizations, they must look beyond utilizing only donors as sources of funds.

However, the laws on NGOs "non-profit" status must also be clarified so that the organizations will not be violating any regulations by implementing income-generating activities.

Finally, although there has been significant progress at the NGO level, the transfer of financial management tools from NGOs to beneficiaries is still in its infancy. There is a great need to assist community-based groups with the skills to manage their own financial resources.

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Appendix 1: Inventory, Stock Management and Purchasing Forms

Summary of Fuel Purchases and Consumption Period from_______ to________			
Description	Diesel (L)	Gas (L)	Observation
1. Initial Stock = Inventory + level of fuel in vehicles Date__________			
2. Purchases (Quantity)			
3. Final Stock = Inventory + level of fuel in vehicles Date__________			
4. Actual Fuel Consumption (1+2+3)			
5. Anticipated Consumption (taken from individual monitoring records)			
6. Difference to Analyze (5-4)			
7. Kilometers: No.________ No.________			
8. Number of liters to 100: (for all the vehicles) (8 = (4/7) *100			
9. Number of liters to 100 by vehicle No._______ No._______			

Vehicle Log Book
Vehicle_____________________ Period from_______ to_______ Name of Driver__________

Date	Destination		Time		Kilometers		Tot	User			Sign.
	Dep	Arr	Dep	Arr	Dep	Arr		name	proj.	dep.	

Property Log NGO:________ Project No.________ Period from________to______ Project Title________								
Inventory No.	Description	Purchase date	Quantity	Unit Price	Total Price	Charged to	Accounting No.	Obsn.

Inventory Operations Statement		
No.	Description	Amount
	Receipts:	
	Stock variation = final - initial stock	
1	Total Receipts	
	Expenses	
	Depreciation	
2	Total Expenses	

Stock Depreciation Table

Name of equipment____________________ Length of Life________________
Value at Purchase______________________ Annual Depreciation___________
Date of Purchase_______________________ Monthly Depreciation__________

Period	Initial Value	Depreciation	Net Value

Receipt Form

Ref. No.________

From____
The Sum of____
____
Purpose____
____
Date____

Signature of Recipient________________ Signature of Treasurer____________

Reception of Materials Voucher

No:______________________________
Name of Supplier____________________
Address___________________________
Reception Date______________________
List of attached documents:

____

____

Value in FCFA____

____

Certification of receipt by:

	Name/Function	Signatures
1.	______________________________	______________________
2.	______________________________	______________________

Description	Unit		Price		Observation
	Number	Type	Price/Unit	Total	

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Appendix 2: Cash Management Forms

Monitoring Receipts/Expenses

Date	Ref.	Expenses						Receipts
Total								

Petty Cash Payment Voucher

Ref. No.________

Name of Recipient____

____

The sum of____
Purpose____
Date____

Signature of Recipient____________ Authorized by________________________

Appendix 3: Revolving Funds Form

Payment in Kind Receipt

Date:______________ Purpose______________

Item	Quantity	Unit Value	Total Value

Record for Monitoring Client Credit

Client Name___________
Address_______________

Date	Description of payment	Ref.	Credit Amount	Amount Reimbursed	Amount Remaining to Pay	Observation

Log of Indirect Costs

Date	Description	Ref.	Types of General Costs (acct #)					Observations

Periodic Inventory of Stock

Date:_______________

Item	Quantity	Unit Price	Amount	Observations

Final Stock = Initial Stock - Stock utilized

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