

toolbox INDIA Foundation Financial Management White Paper

Context of the problem being solved

Financial management plays a key role in the success of any organization. Without an understanding fundraising, fund management and disbursement an organization may not be able to function at optimal capacity. NPOs often have poor financial planning and systems in place resulting to not enough attention being paid on financial control. This makes an organization vulnerable to financial losses as they are unable to cope with any funding crises, this in turn may hamper their growth and development.

The goals of financial management in an NPO are the following:



Overall, it is important that an organization has sound financial practices in order to provide credible information to fundraisers, beneficiaries and stakeholders. Here it is also imperative that any legal requirements are monitored and met. The accounting system comprises of the following essential parts that every organization must have.

Funding Agreement

- A document that stipulates how funding should be applied

Budget

- Costs that are projected to be incurred for each planned activity

Fundraising plan

- Strategy and tools in place to procure appropriate funding for the organisation

Accounting system

- A basic system that is able to track expenditure and any income generated

Financial reporting

- All organizations are required to maintain complete, reliable and valid financial documentation (Cash flow, trial balance, income statement)

However, the major challenge that organizations face is a lack of resources and knowledge to develop an optimal financial strategy. At toolbox INDIA we use appropriate tools to build robust financial strategies to ensure efficient operations in an organization.

Our Service offerings

We aim to ensure that an NPO is applying the most appropriate financial management strategy. This also depends on the needs and the maturity of the organization. However we break our service offering into the following broad categories:

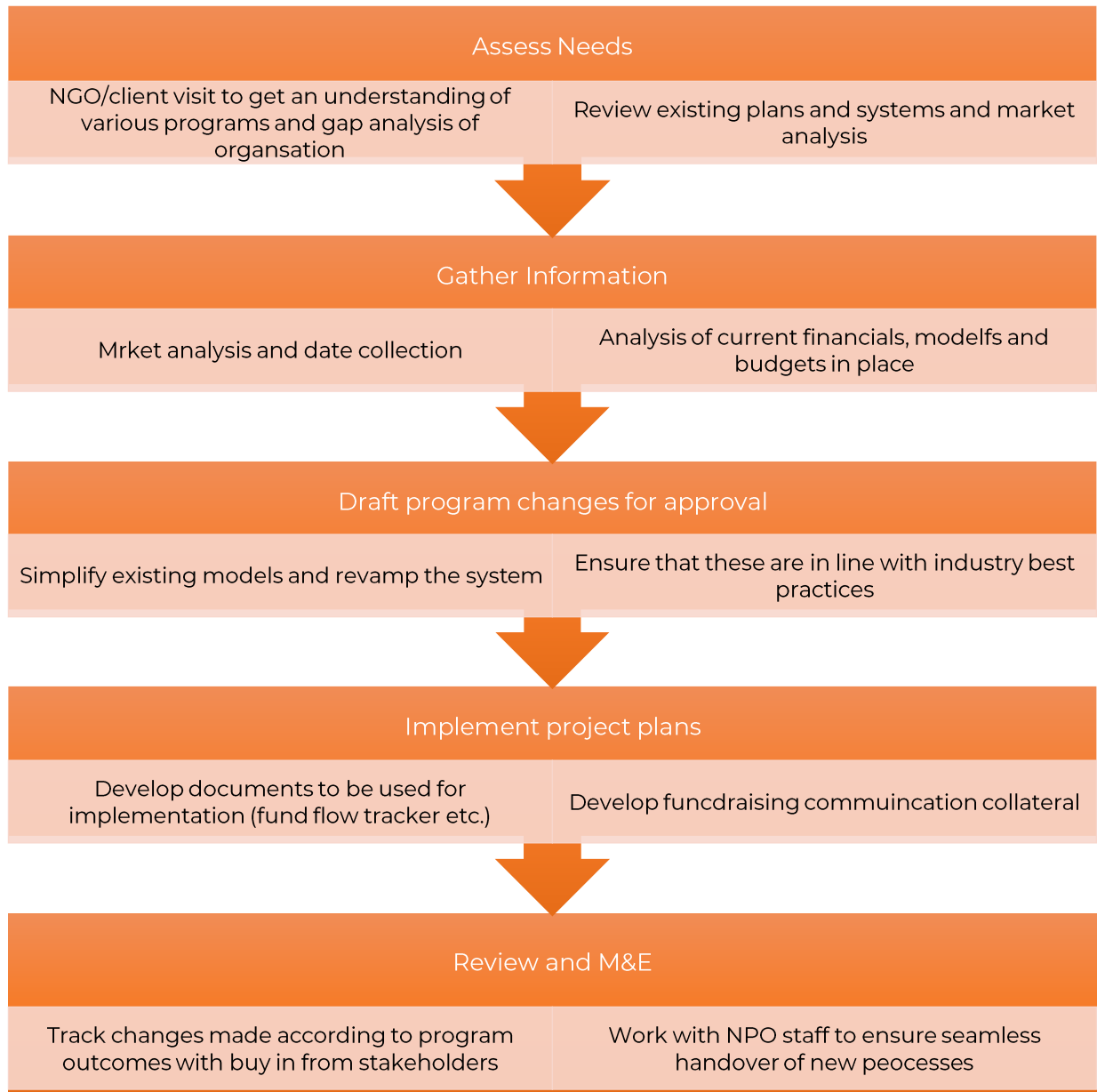
1. **Financial risk management through strategy planning** – Develop financial models and projections
2. **Financial resource mobilization** – Identifying and executing fundraising strategies

3. **Budgeting** – creating a realistic budget that covers all expected cost centres
4. **Utilization of funds** – tracking of expenses and cost allocation
5. **Accounting and financial reporting** – Tracking of all monies spent and expenses incurred through the year

Specific issues identified within organisations

1. **Financial Management:** Organisations are unaware of the ways to track their expenses and finds it difficult to maintain their annual budget
2. **Business models:** Monetization logics not clearly defined leading to sub optimal pricing and revenue generating frameworks.
3. **Underdeveloped financial and accounting system:** This implies gaps in formal procedures to maintain checks and balances, e.g. payments tracker, cash flow statement etc.
4. **Lack of financial communication:** Unavailability of proposals and financial plans to tap the institutional donors for the organisation. This may lead to lack of clarity in fund management and create a funding gap.
5. **Improper budgeting:** No or incomplete estimated budgeting is done for the next financial year not anticipating any contingencies, crises and program requirement

toolbox INDIA Methodology



Project Outcomes (Key Deliverables)

1. **Financial model** for each program vertical in order to support financials for donor proposals. A basic financial model includes assumptions and drivers, a balance sheet, an income statement and a cashflow statement. This helps keep track of a company's assets, liabilities, income and any expenditure. A simple accounting software or even excel can be used to track the finances. This also helps keep track of the long and short term goals of the organisation
2. **Financial Dashboard** is an internal management tool that helps keep track of finance related KPIs. This will help the organisation track its expenses on a yearly period against predetermined objectives and prepare its budget in a more efficient way. This can also be an effective way to compare our expenses to industry benchmarks
3. **Business models** are primarily made up of revenue models and pricing strategies. A revenue model details how an organization will generate income (either through operations of fundraising). A pricing strategy details how to maximise profitability per unit of service provided. Possible strategies include, new market entries and cost reduction.
4. **Fundraising proposal** serves as a means to assist the organization to highlight their achievements, their program goals and their requirement for funding. It will establish the nature of work of, highlight its impact which will help them tap prospective high network donors for revenue generation. This can be developed as an audio visual film, a document or a presentation depending on the needs of the organisation.
5. **Fund flow/Budget/Cashflow tracker** all help understand the financial status of the business. Tracking the amount of funding you have left, or tracking cash against the budget allows an organisation to predict any upcoming crises and ensure that money is being managed well. Essentially here we are monitoring the money flowing in and out of the business and understanding revenue and expenses.
6. **Financial planning** helps to look into financial projections over the course of time. This will help in financial forecasting, effective fund management as well as fund allocation in line with the vision of the organization for the next 5 years. A strategic roadmap and financial model will help achieve greater reach and impact

Keystone Project

We worked with an NPO that strives to set up and run urban community development projects in slum districts in Mumbai. Programmes are run for slum dwellers across Mumbai to rehabilitate them and to empower them in the following areas: community healthcare, education, disability, women's empowerment and citizenship.

This organisation required a revamped financial model that assisted them with financial management, planning and controlling. We developed Fund flow management for the organisation. In order to conduct this operation we reviewed existing business plans and systems. Identified cost centres based fund inputs and outputs. We also determined costs required to achieve a target and methods to document this so the NPO can approach a donor with best case and worst case scenario.

Using this we designed a Fund flow tracker to track the month on month fund flow. This assists in recognizing when there is surplus or deficit or fund flow. This also facilitates the allocation of excess money to a particular division (from the common fund)

The impact

At the heart of our service offering is ensuring financial control i.e that an organisations funds are used effectively and that the organisation's financial health is under check. Financial management encapsulates planning, controlling, monitoring and organising the financial resources of an organisation to achieve its objectives. An often neglected function we highlight the importance of it and provide effective and simple strategies that NPOs can follow and be successful with.

A financial plan provides the organisation with a systematic financial planner, which helps them in allocating the resources for the various programs of the organisation and also for the manpower planning. The financial plan will give a clearer understanding of any surplus/ deficits in their funding and will also provide a holistic account of expenses incurred per program thereby making internal financial operations smoother.

The NPOs have a clear understanding of the cost per beneficiary per program to reveal to potential donors. To complement this learning a fund raising proposal is helping the organisation to pitch their programs and activities to the potential donors/funders and other stakeholders who are interested in engaging with the organisation. It will help the organization in putting forward the nature of the work and its impact on the society to the potential funders/donors.

The fundraising proposal will facilitate in pitching for funds to potential corporate/institutional donors. It will also serve as a marketing tool for external stakeholders and help diversify the donor pool.

An effective revenue model would ensure higher profit margin, would also improve upon the quality of service delivered. Standardization in costing structure would keep them ahead of the competition and can ensure long term sustainability. Financial Plan will help in resource allocation to various programs and also to every activities associated with the programs. Financial Plan will help in providing a detailed roadmap to achieve financial commitment throughout the year for the organization. It will aid in managing and allocating the funds in an appropriate and systematic way for all the programmatic and operational activities of the organisation.

Overall we have assisted NPOs in using resources effectively, be able to raise resources seamlessly and be more accountable to stakeholders. Financial stability also means long term sustainability and success.