# ARTS AND CULTURE ENTREPRENEURSHIP
# ACE 2022

alnawa

A New Level of Core Mission Support

# Our Agenda

- What is Strategic Finance and how to apply it to different components of financial management?
- What is Strategic Budget and why is it important?

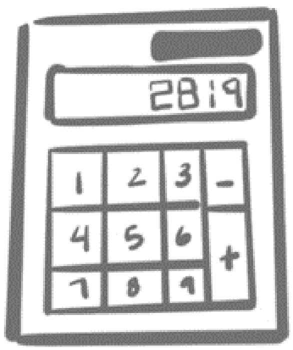
BREAK

- Diversification of Income
- Capital Reserve

*Adapted from Spring Strategies FIRE Program Framework

# What is Strategic Finance and how to apply it to different components of financial management?

# Transactional, Managerial and Strategic Finance

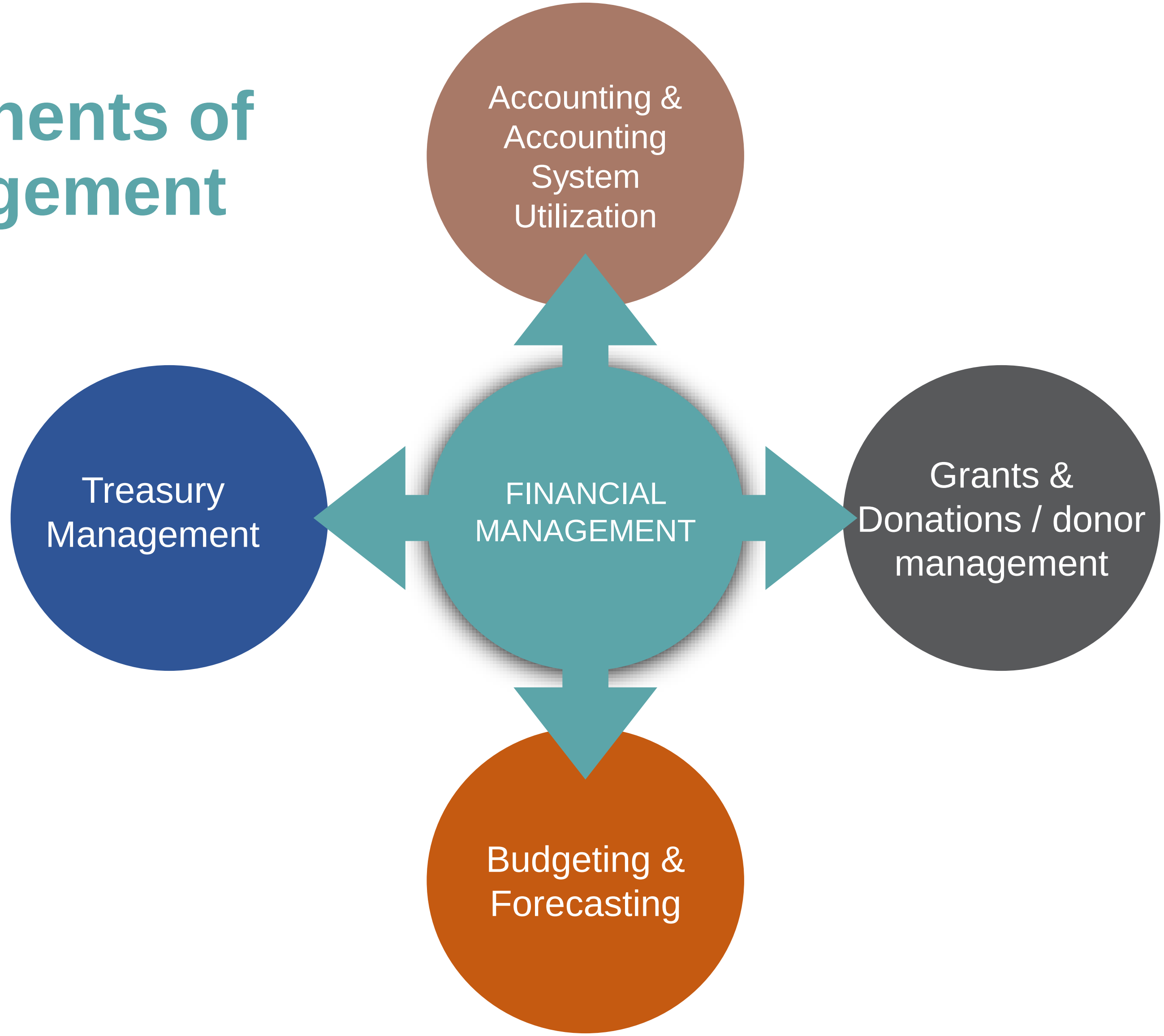



**Transactional Finance**
(bookkeeping) focuses more on capturing and tracking the organization financial activities; both inflows and outflows (receipts and payments).

**Managerial Accounting**
builds on the bookkeeping function where it tracks financial data in order to produce financial statements that are accurate and in compliance with applicable rules and regulations.

**Strategic Finance**
focuses more on how to align and communicate financial information in a way that is integrated into decision making process.

# The Key Components of Financial Management



# The Financial Management Components

## 1. Accounting & Accounting System Utilization

### Transactional (Bookkeeping)

- Recording and tracking inflows and outflows (receipts & payments)
- Ensuring completeness of supporting documents
- Reviewing and maintain the sub-ledgers and ledger accounts
- Ensure compliance with applicable Accounting, Taxation and other Government rules & regulations.

### Managerial

- Constructing the organization Chart of Accounts;
- Ensuring the completeness, accuracy and quality of the accounts and balances;
- Producing Financial Statements and Financial Reports
- Developing Accounting Policies, Procedures and Processes that facilitate the daily financial operations.

### Strategic

- Reviewing Income and Expenses in light of the organization's activities, goals and objectives;
- Producing Financial Analysis, dashboards and financial health indicator;
- Effectively communicating financial information so that these information can be integrated into decision making

# The Financial Management Components

## 2. Treasury Management

### Transactional (Bookkeeping)

- Deposits and disbursements.
- Maintaining the bank book and cash book.
- Reconciling and settling corporate credit cards, cash advances and other receivables.

### Managerial

- Developing cash forecasts and cash flow projections.
- Managing the organization exposure to currency fluctuation.
- Developing Treasury Policies including investment policy.

### Strategic

- Assessing investment effectiveness.
- Setting financial goals for reserves.
- Effectively communicating liquidity position and discuss future objectives and timing for cash needs.

# The Financial Management Components

## 3. Budgeting & Forecasting

### Transactional (Bookkeeping)

- If using a budget module in the Accounting System, entering the budget into the system.

### Managerial

- Developing budgeting guidelines (annual operating budget, multi-year budget and pipeline).
- Developing budget templates, compiling information from across the organization and consolidating various budgets to produce the organization level budget.

### Strategic

- Allocating resources in alignment with the organization’s strategic and annual goals.
- Monitoring progress towards achieving financial goals.
- Effectively communicating actual vs budget and engaging others in discussing variances for actions.

# The Financial Management Components

## 4. Grants & Donations and Donor Management

### Transactional (Bookkeeping)

- Record receipt of donations and grants.
- Issuing tax receipts for individual donors.

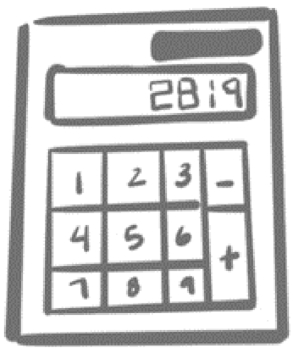
### Managerial

- Ensuring grants are managed and spent according to the budget.
- Producing donor’s financial report.
- Developing new proposal budgets and tracking of pipeline opportunities.

### Strategic

- Ensuring diversification of income.
- Effectively utilizing the grants and other income sources.
- Leveraging donors contributions and develop a strategy for income sustainability.
- Monitoring the donor dependency and set goals for how much we can rely on one donor.

# Summarizing

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# POLL

Where is your organization on the continuum?

BOOKKEPING

STRATEGIC

INVOLVES EXPERTS

INVOLVES ENTIRE TEAM

# What about the Role of the Board of Directors?

**The Board of Directors' Role**

**Oversight**

- Ensure that resources are managed in a fiscally sound and responsible manner
- Review Financial Performance Reports

**Policy Formulation**

Ensure policies are established to provide guidance to management in respect to financial operations

**Decision Making**

Approve Budget, Annual Financial Statements and Annual External Audit Report

# What is Strategic Budget and why is it important?

# Strategic Budget

- **Scenario Budgeting** developing more than one scenario to respond to "what if" and address uncertainty
- **Best practice** is to develop 3 scenarios; base "Conservative", target "Optimistic" and Stretch "Aspirational"
- **Income** from all sources and all types are projected and captured with their probability of likelihood
- **Expenses** are budgeted following zero based budget; which considers historical events but budget for future events or activities
- **Don't starve your organization** Allocate and recover all your expenses

Remember to factor in the inflation and the currency fluctuation

# CHECK POINT

Does your organization apply scenario budgeting?

1. No, but we are interested in applying scenario budgeting for our future budgeting process
2. No, it is too complicated for our organization
3. Yes, we have been developing two scenarios
4. Yes, we have been developing three scenarios

# Starvation Cycle

**The nonprofit starvation cycle** a trend of under-investment in organizational infrastructure due to donor expectations of low overhead expenses.

**Organizations fail to cover** their “true cost” of implementing programs or conducting business

**Overhead Myth** is based on the simple premise that direct program expenses is good and more overhead is bad

# Challenges to the Overhead Myth

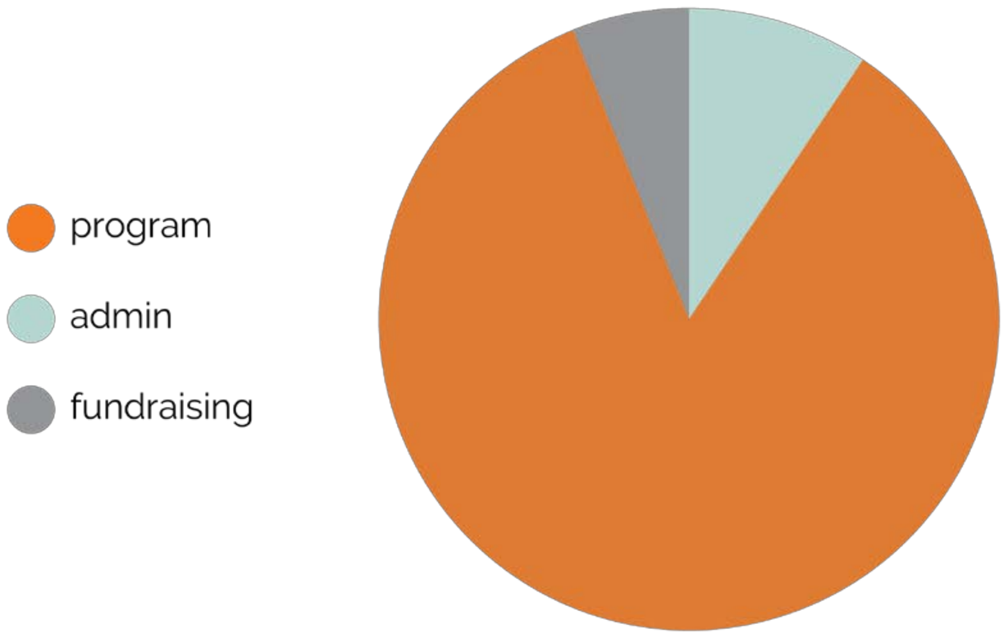
"Organizations that build robust infrastructures…are more likely to succeed…" **The Nonprofit Starvation Cycle, 2009**

A 2013 study revealed that nonprofits that were evaluated as high performing had on average higher overhead rates…**Giving Evidence Study, 2013**

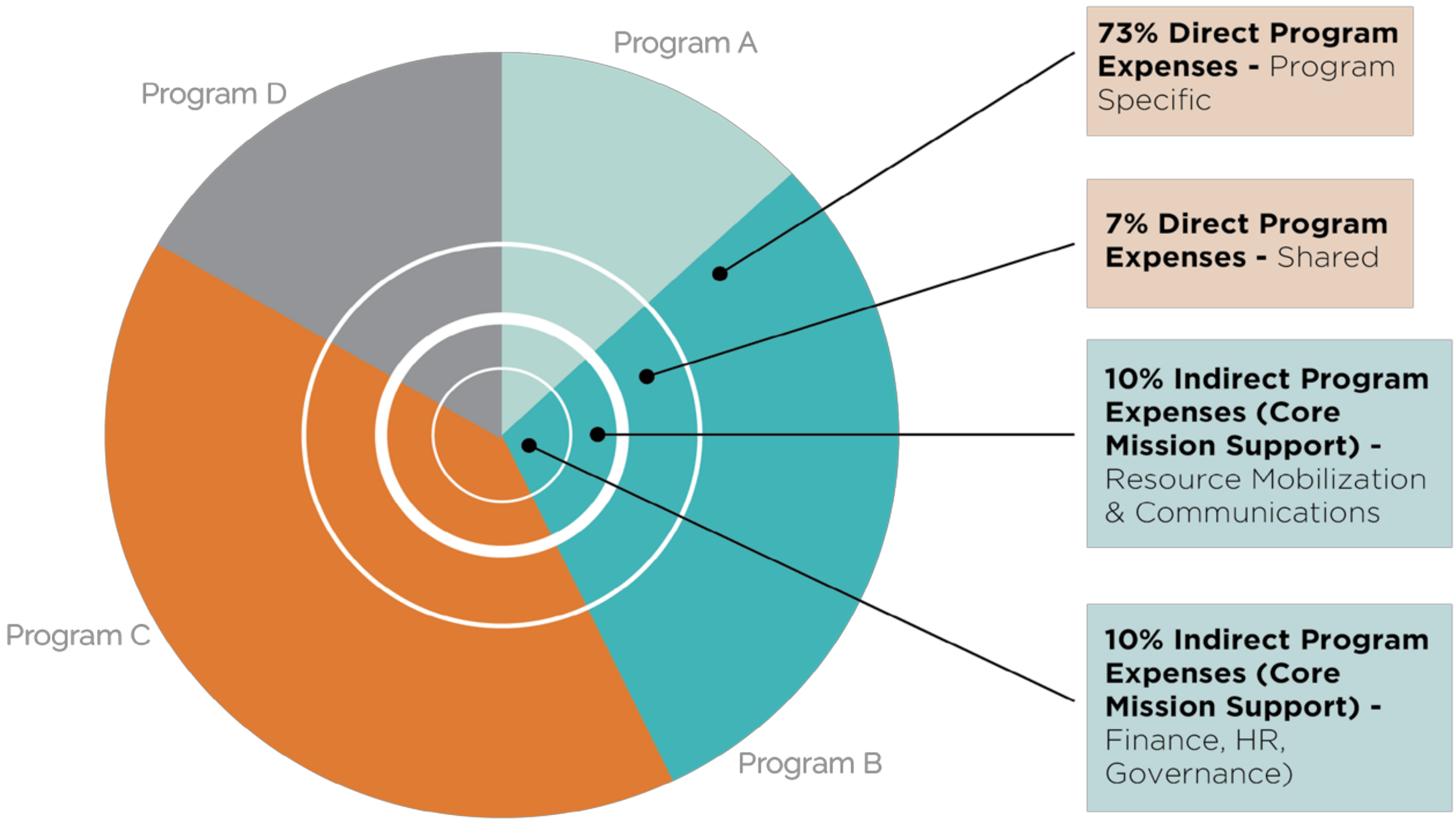
A more recent study by Bridgespan also concluded that indirect (overhead) ratios are not good measurements of efficiency or effectiveness. **Pay what it takes philanthropy, 2016**

"The percent of nonprofit expenses that go to administrative and fundraising costs—commonly referred to as 'overhead'—is a poor measurement of a charity's performance." **Open Letter to Funders by BBB Wise Giving Alliance, GuideStar, and Charities Navigator, 2016**

# Old view of our organization Budget



# New view of our organization Budget



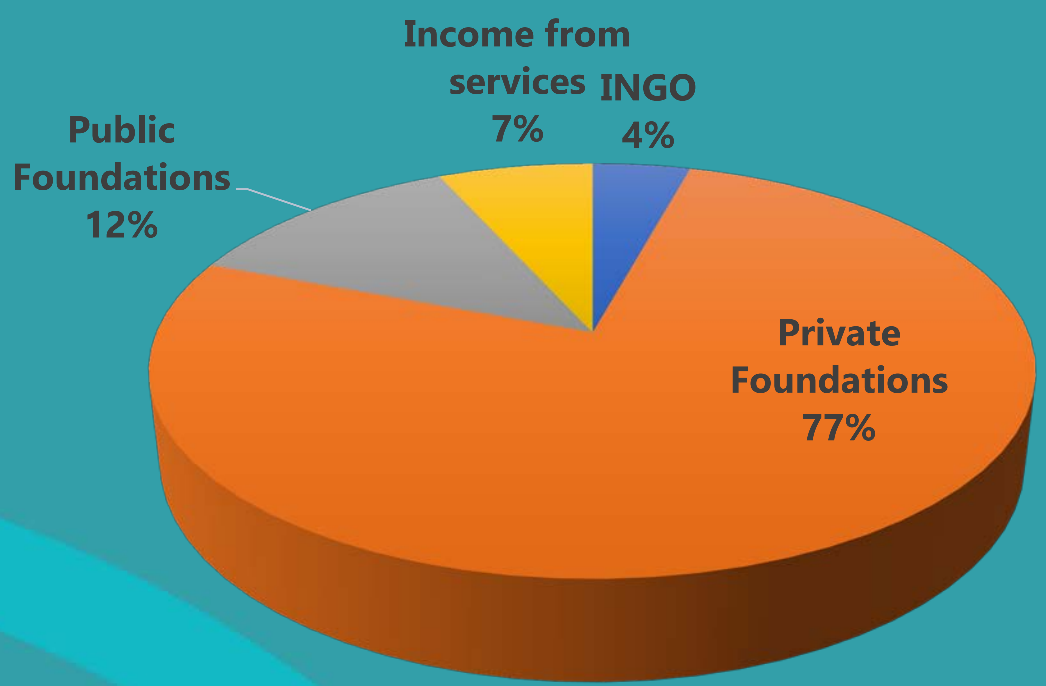

**Adapted from the work of Curtis Klotz in "A Graphic Re-visioning of Non profit Overhead" In Nonprofit Quarterly, 2016.**

# Let’s practice Cost Categories and Cost Items


Take a break.
You deserve it!

# Diversification of income

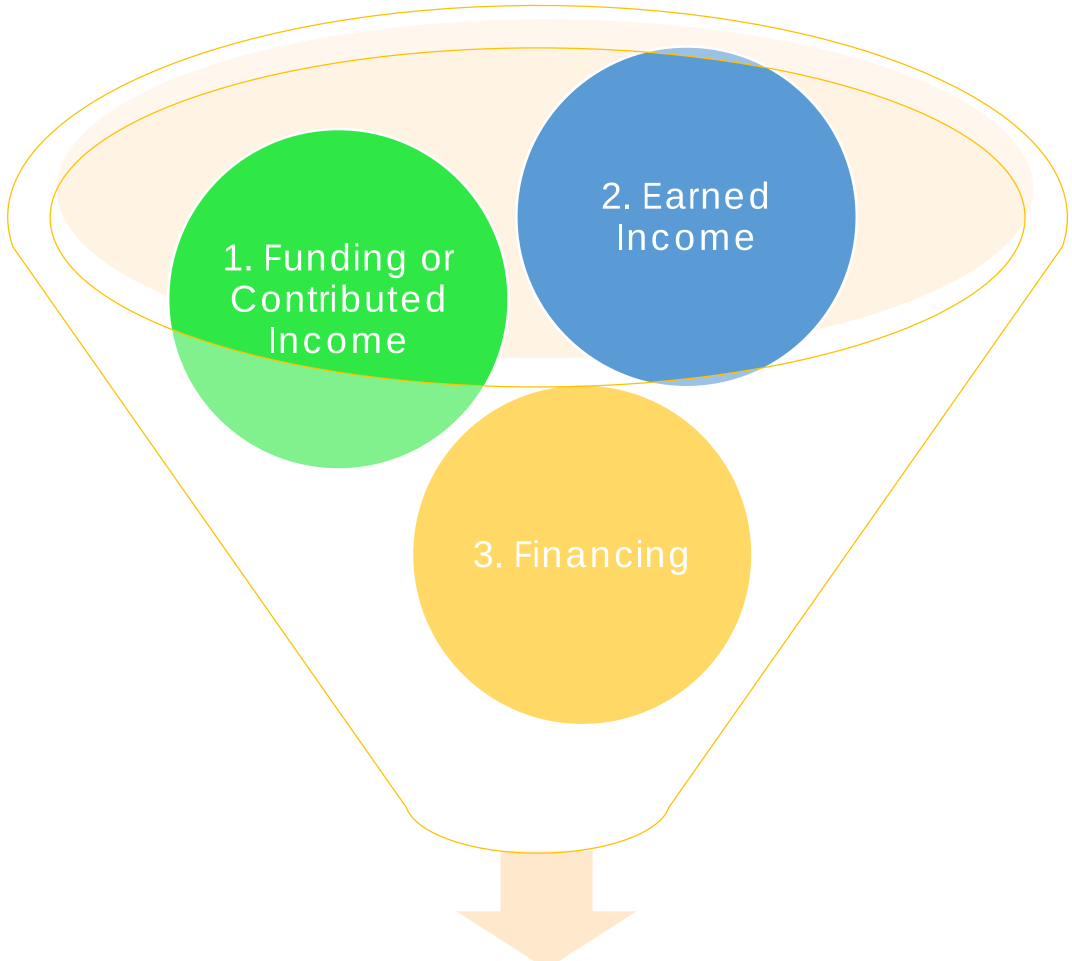
## FY 20XX



# Why Diversification?

**Diversification in order to:**

- Reduce dependency (risk mitigation)
- Optimize opportunity for unrestricted income
- Recover true costs
- Build capital reserves




**Potential Streams of Financial Inflows**

# 1. Funding or Contributed Income

## What is it?

- Income received in response to calls to action or based on solicitation processes
- Comes in the form of Grants, Contracts or Donations/Gifts
- Requires a comprehensive proposal, pitch or some sort of an ask

## Sources:

- **Multilateral funding** (e.g UN Agencies)
- **Government funding:** (Bilateral / ODA or National)
- **Public Foundations** (e.g DOEN Foundation)
- **Private Foundations** (e.g Ford Foundation)
- **Corporate giving** (e.g. CSR funding)
- **Individuals** (major gifts, donation, planned giving)
- **INGOs** (e.g CARE, Oxfam...etc.)
- **Movement Funders** (e.g. Feminist Funders)

# 2. Earned Income

## What is it?

- Generated income by organization or network
- Maximizing return on existing resources
- Always unrestricted

## Sources:

- **Income generating activities** (product sales)
- **Fees for services** (running a training centre, consulting services)
- **Rent** (generated from an owned facility)
- **Return on Investment** (Bank Interest on capital reserve, return on endowments)

# 3. Financing

## What is it?

- A form of debt that provides capital to the organization or network
- May or may not be repaid depending on the type of financing vehicle

## Sources:

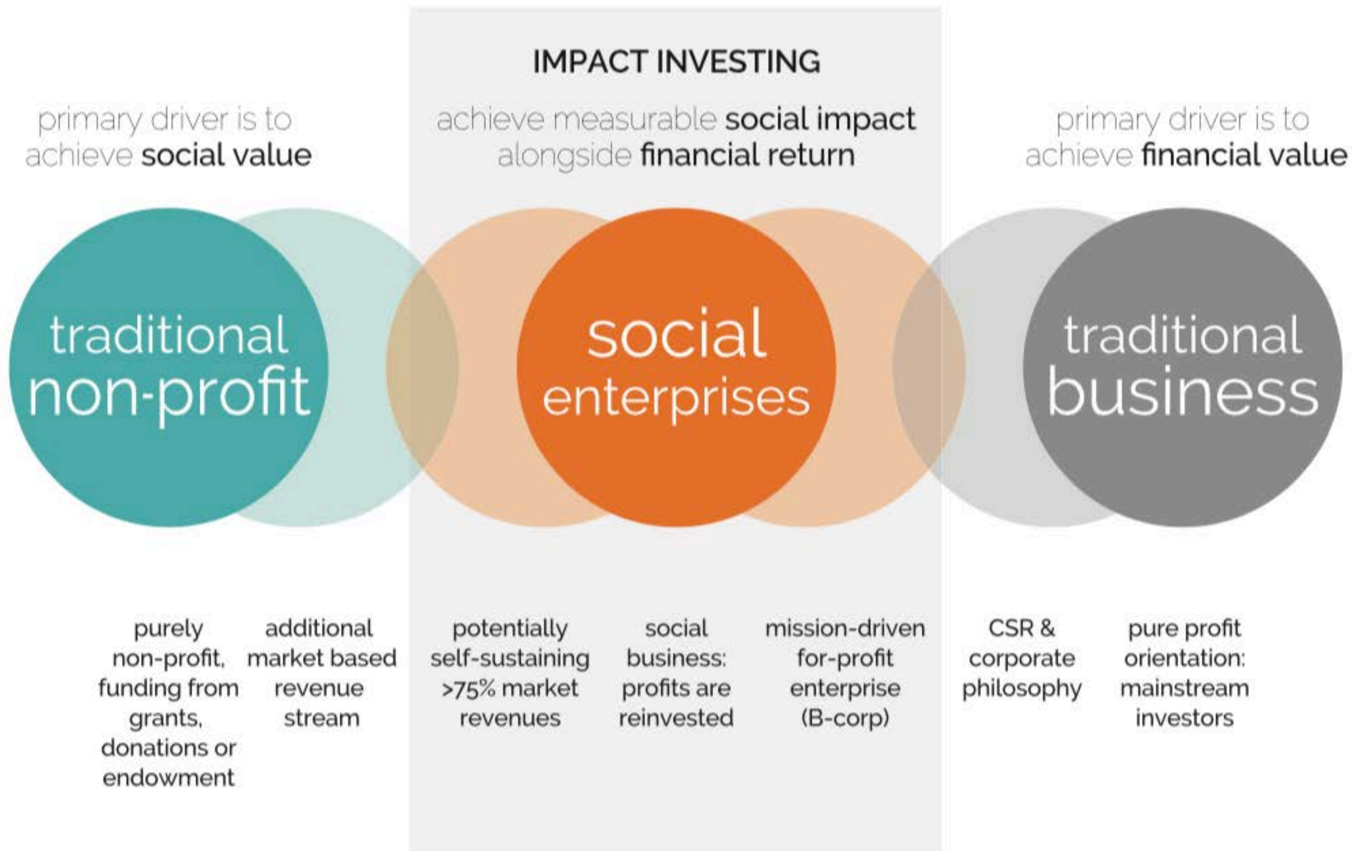
***Conventional financing –*** Traditional financing instruments or vehicles, can take different shapes, but they have to be paid back, in addition to paying interest fees.

- Commercial loans
- Line of Credit
- Credit Cards
- Vendors' credit facilities

***Social financing –*** Investment that seeks a measurable social, cultural or environmental impact as well as financial returns for the investor(s).

- Blended value (social & financial returns)
- Easier to access and manage than conventional financing
- Impact measurement is often a requirement

# Business Model Spectrum



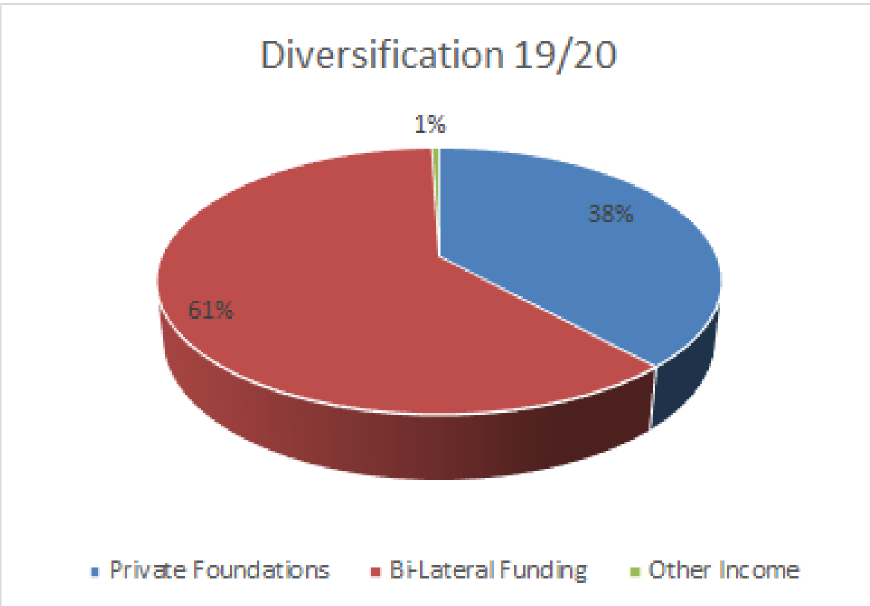

Source adapted from J. Kingston Venturesome, CAF Venturesome, and European Venture Philanthropy Association (2015)

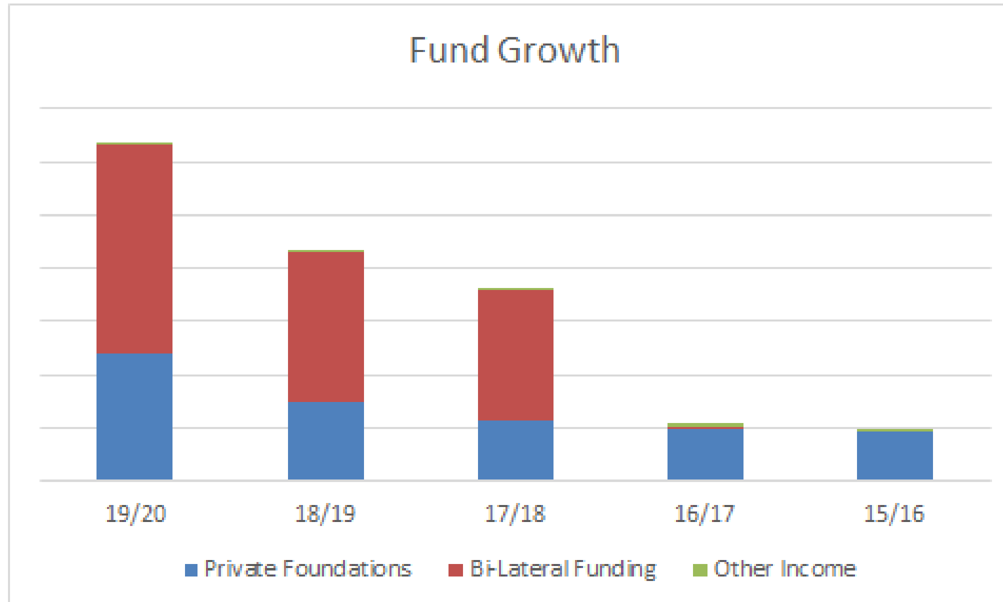
# Diversification Readiness

**Be intentional, realistic and imaginative in building the right mix for you!**

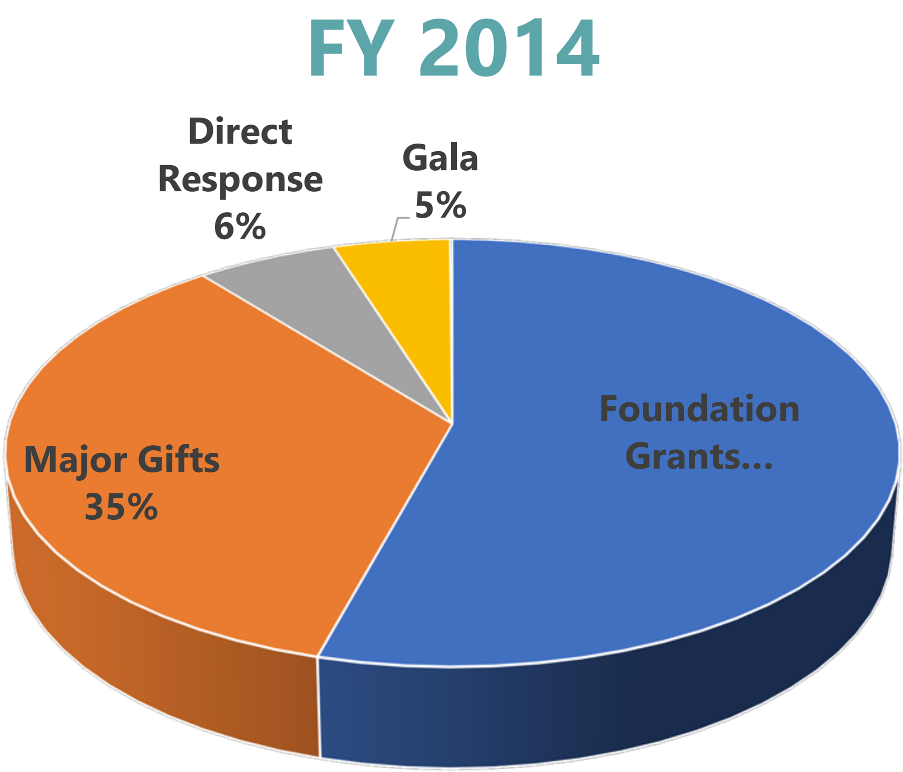
- Fully understand your current income mix
- Evaluate what others are doing: Who is innovating?
- Assess context: opportunities and challenges
- Understand what it takes:
  - What investment is required? Returns anticipated?
  - Be realistic about timelines
  - Internal capacities, skills and infrastructure needed
- Consider how you plan your work and engage with funders, supporters and communities
- Be able to articulate the social benefit, financial benefit and impact

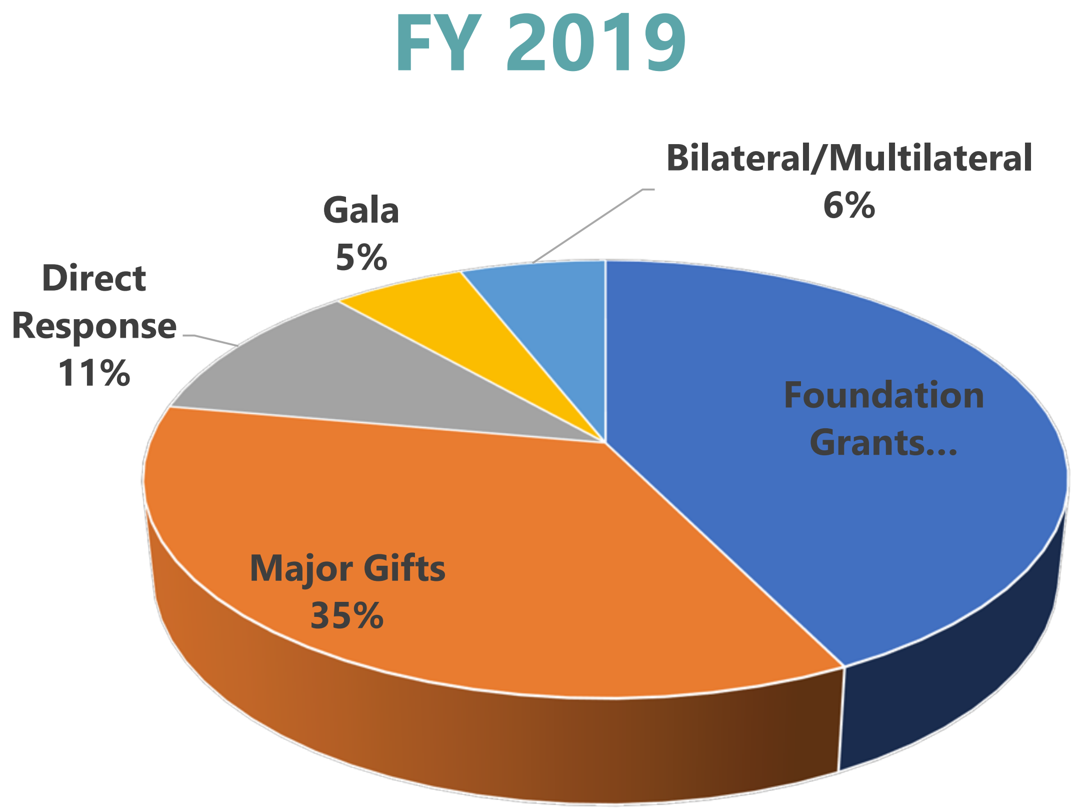
# Income Diversification and Growth for XYZ organization



# Income Diversification and Growth for ABC organization



## EXERCISE

**What is your diversification story and how would you like it to be?**

# Capital Reserve

# Warmup

WHEN IT COMES TO RESERVE FUND, WHAT TYPE OF A LEADER ARE YOU?

# Capital Reserve Pre-requisites

## What do you need to have in place before you start building your reserve?

- End the starvation cycle
- Use strategic budgeting approach
- Set an intention for Capital Reserve

## Building and Managing Capital Reserve

- Understand your context (e.g. legal)
- Talk to your donor about it
- Include it as a line item in your funding proposal

# Capital Reserve: Governance

- Consider building the competencies through new board recruitment
- Develop a Capital Reserve and Investment Policy
- Consider investment oversight in your Board or Finance Committee

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# Thank You

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