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 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

- Accounting & Accounting System Utilization
- Grants & Donations / donor management
- Budgeting & Forecasting
- Treasury Management
- 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.
- 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

<table>
<thead>
<tr>
<th>Transactional (Bookkeeping)</th>
<th>Managerial</th>
<th>Strategic</th>
</tr>
</thead>
</table>
| • If using a budget module in the Accounting System, entering the budget into the system. | • 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. | • 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.
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.
Where is your organization on the continuum?

BOOKKEEPING

INOLVES EXPERTS

STRATEGIC

INOLVES ENTIRE TEAM
What about the Role of the Board of Directors?

**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

The Board of Directors’ Role
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
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
The nonprofit starvation cycle is 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. The 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

- program
- admin
- fundraising
**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

- Private Foundations 77%
- Public Foundations 12%
- Income from services 7%
- INGO 4%
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
2. Earned Income
3. Financing
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 a request

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

- **Traditional Non-Profit**
  - Purely non-profit, funding from grants, donations or endowment

- **Social Enterprises**
  - Potentially self-sustaining, >75% market revenues
  - Social business: profits are reinvested

- **Impact Investing**
  - Achieve measurable social impact alongside financial return

- **Traditional Business**
  - Mission-driven for-profit enterprise (B-corp)
  - CSR & corporate philosophy
  - Pure profit, mainstream investors

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

Diversification 19/20

- Private Foundations: 61%
- Bi-Lateral Funding: 38%
- Other Income: 1%

Fund Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Foundations</th>
<th>Bi-Lateral Funding</th>
<th>Other Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>19/20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18/19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17/18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16/17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15/16</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Income Diversification and Growth for ABC organization

FY 2014
- Major Gifts: 35%
- Foundation Grants...: 11%
- Gala: 5%
- Direct Response: 6%

FY 2019
- Major Gifts: 35%
- Foundation Grants...: 11%
- Gala: 5%
- Direct Response: 6%
- Bilateral/Multilateral: 6%
What is your diversification story and how would you like it to be?
Capital Reserve
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
• Consider building the competencies through new board recruitment
• Develop a Capital Reserve and Investment Policy
• Consider investment oversight in your Board or Finance Committee
References

- https://www.philanthropy.com/paid-article/five-foundations-address-the/293
- https://giving-evidence.com/2013/05/02/admin-data/
- https://nonprofitquarterly.org/2016/08/16/graphic-re-visioning-nonprofit-overhead/
- http://overheadmyth.com/
- http://ssir.org/articles/entry/pay_what_it_takes_philanthropy
- http://ssir.org/articles/entry/the_nonprofit_starvation_cycle
- Finding your Funding Model
- Ten Nonprofit Funding Models
- On Impact Investing
- Are Charities Ready for Social Finance
References

- Financial Management Association
  - Developing your Reserve Fund Policy – A Template and Guide for Nonprofits

- Humentum
  - Developing A Financing Strategy

- National Council of Voluntary Organizations (NCVO)
  - Reserves Policy
Thank You