Developing a Financing Strategy

OVERVIEW

Brief description

In this toolkit you will find:

- A discussion about why there is a need for a financing strategy.
- Information about what is required for a successful financing strategy (Prerequisites for a successful financing strategy). This contains ideas about what you need to put in place in your organisation in order to be able to plan a successful financing strategy. You will need to think about the basics of planning, budgeting, financial systems, your public image and values clarification.
- A description of a number of strategic options for financing your organisation, including donor funding, earned income, member fees, fundraising from the general public, investments and careful spending.
- Some ideas for preparing a strategy document.
- Some ideas for making the strategy work.

We hope this toolkit helps you to make your organisation more financially sustainable and to ensure that it has some financial autonomy.

Why have a toolkit on developing a financing strategy?

The toolkit will help you to develop a process for ensuring the financial sustainability of your organisation. We believe that thinking through a financing strategy for your organisation in a systematic way, and writing that strategy up as a basic reference document for the organisation, will help you towards gaining financial sustainability. If you use this toolkit in conjunction with other toolkits, you will increase the capacity of your organisation to plan for sustainability, and to generate the funds needed.

Who should use this toolkit?

This toolkit is aimed specifically at people who have not thought through a financial strategy before. Perhaps you have not been involved in running an organisation before. Or perhaps your organisation has managed without a strategy but now you realise that, to survive, you need a strategy. Where once it was enough to have a few loyal donors, now the funding field has become more complex. Donors increasingly expect organisations to look at alternative ways of generating finance. If you are in a situation like this, then this toolkit will be useful for you.

When will this toolkit be useful?

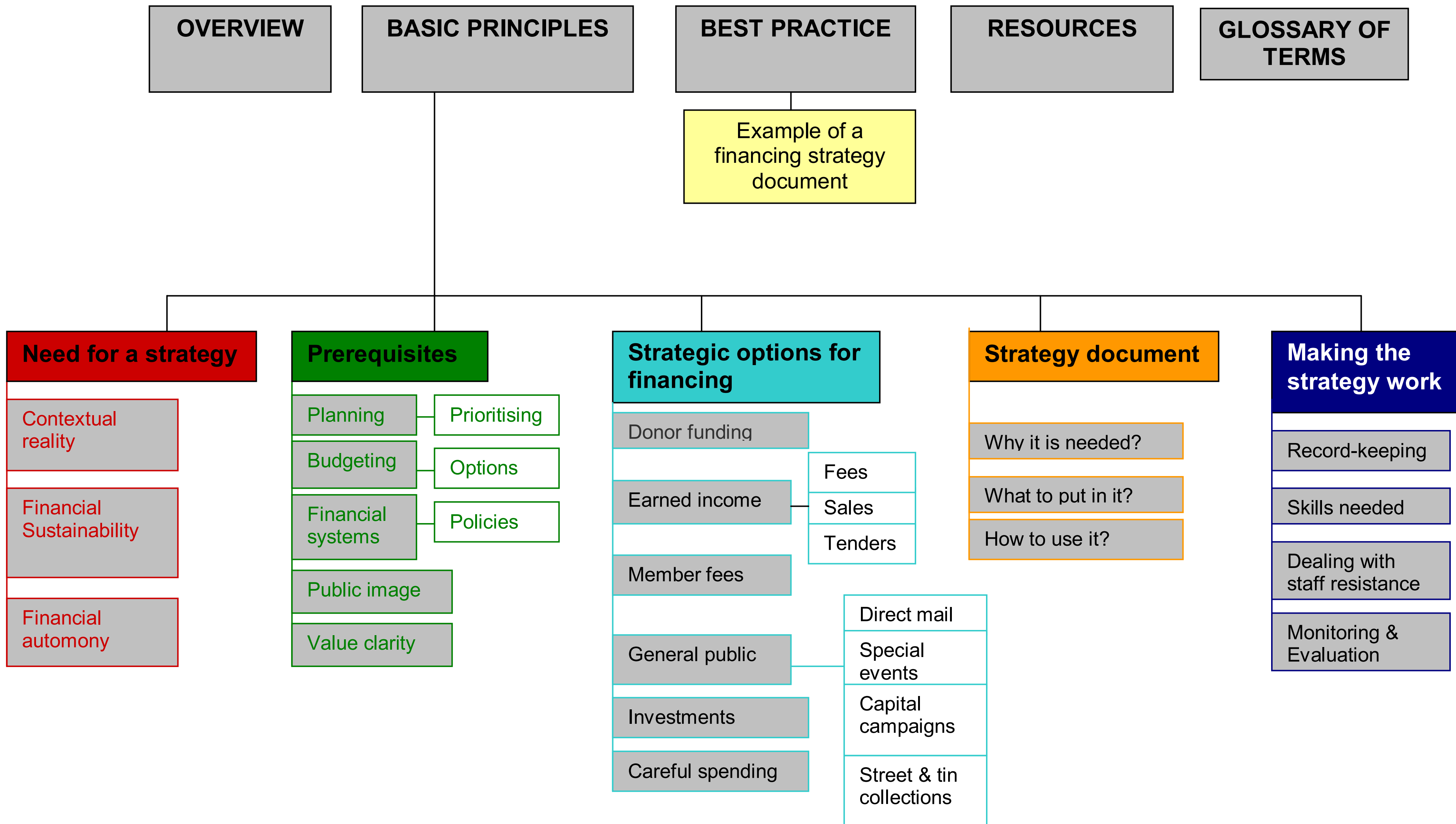
This toolkit will be useful when:

- You have done the strategic planning (see toolkit on Strategic Planning) for your organisation, as well as your action planning (see specific toolkit) and budgeting

(see specific toolkit), and now you need a multi-sided plan for generating the funds you need to support your plan.

- You want to show donors that you are moving towards financial sustainability and a degree of financial independence.
- Donors ask you what your financing strategy is.
- You want to ensure that your organisation will survive in the long-term.

For a site map to guide you around this toolkit on Developing a Financing Strategy, go to the next page.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BASIC PRINCIPLES

BASIC PRINCIPLES

The need for a strategy

Why do you need a financing strategy?

You may feel that you don't need anything as fancy as a "financing strategy". Really, all you need is a good funding proposal and the names of some donors you can send it to.

If that is so, then you are in a fortunate and unusual position in the civil society funding world. Today, most civil society organisations need a financing strategy that includes a number of strategic options for financing, rather than just funding from donors. In this section of the toolkit we look at:

- The contextual reality in which civil society organisations now have to raise money.
- What we mean by financial sustainability.
- What we mean by financial autonomy.

CONTEXTUAL REALITY

We live in an increasingly complex world. Part of that complexity relates directly to the inter-relationship between the haves and have-nots in both developed and developing countries. This inter-relationship is something most of us who work in civil society organisations in developing countries deal with daily. It is an inter-relationship that is often characterised by great need on the one side (our organisations and our work) and limited resources on the other (the funding partners). Although the relationship may be a partnership, unless civil society organisations develop some autonomy or independence, the partners are not equal.

Why do donors fund development work?

Donors (whether corporate, government, trusts or private individuals) have to balance conflicting needs, their own agendas and the need to show good "development returns" or economic returns on their investments. Their concerns may be humanitarian or economic (e.g. concern for human dignity or concern to develop trading partners), or both. Either way, they want the best value for money spent.

What does this mean for civil society organisations?

Firstly, it means that you are competing with other civil society organisations, and also with the governments of developing countries, for resources. Some donor agencies believe that their money is better spent on reforming and building the capacity of government institutions than on civil society organisations. Sometimes this is true.

Secondly it means that donors want to know that there is likely to be a useful return on their money, even if they cannot continue to fund your work indefinitely. They want to be convinced that the work is sustainable, with or without them.

Thirdly, it means that donors want to know that those activities they fund are cost efficient and cost effective. (see Glossary of Terms)

If you put these three together, you can see that, as a civil society organisation, you need a financing strategy that shows donors you are worth any investment they make in you. And you need a strategy that gives you some independence from any one donor or financing source. This strategy must make it likely that:

- Money donors invest will be well spent to achieve development goals;
- Your organisation will survive even if and when any particular donor or group of donors no longer fund it (financial sustainability); and
- Your organisation will be able to achieve some level of financial autonomy.

FINANCIAL SUSTAINABILITY

There are many different ways of understanding what "sustainability" means in a development context.

What does sustainability mean?

Benefit sustainability	This means that the benefits of development work continue to be felt by communities and individuals, whether or not the project or programme continues.
Organisational sustainability	This means that the organisation is able to continue to do its work. It has a vision and a financial and organisational infrastructure to support the achievement of its vision.
Financial sustainability	Financial sustainability is part of organisational sustainability. It has to do with the ongoing ability of the organisation to generate enough resources to work towards its vision.

What makes an organisation sustainable?

In order to be sustainable, an organisation must:

- have a clear strategic direction;
- be able to scan its environment or context to identify opportunities for its work;
- be able to attract, manage and retain competent staff;
- have an adequate administrative and financial infrastructure;
- be able to demonstrate its effectiveness and impact in order to leverage further resources; and
- get community support for, and involvement in its work.

What makes an organisation financially sustainable?

To be financially sustainable, an organisation must:

- have more than one source of income;
- have more than one way of generating income;
- do strategic, action and financial planning regularly;
- have adequate financial systems;
- have a good public image;
- be clear about its values (value clarity); and
- have financial autonomy.

In other words, the organisation needs a strategy for financial sustainability.

In the next section we look at what is meant by financial autonomy.

FINANCIAL AUTONOMY

What is financial autonomy?

Financial autonomy does not require that an organisation be 100% self-financing (financed completely from income it earns). It does require that an organisation is not wholly dependent on one source for its financing. A mixture of different sources of financing is needed. But this does not exclude donor funding, or contributions from private individuals.

An organisation has financial autonomy when:

- it is able to make its own decisions about how it generates and spends its funds;
- it is able to reject “strings attached” funding because such funding does not fit with its values;
- it is able to make its own decisions about how much to pay its staff.

Very few civil society organisations have complete financial autonomy. They are always accountable to stakeholders for how funds raised in the name of development are spent. What they should be aiming at is the ability to survive without compromising their vision or their values. This **won’t** happen if, for example:

- The organisation relies on only one major donor, and the withdrawal of that donor’s support will mean the end of the organisation. What if the donor insists that the organisation pay salaries that are so low they will end up compromising the quality of the work? What if the donor expects the organisation to follow the donor’s agenda at the expense of its own?
- The organisation relies only on foreign donors who may change their funding priorities at short notice.
- The organisation relies entirely on earned income and has to do work that generates income, irrespective of whether or not it fits with the values or vision of the organisation.
- The organisation spends money in a way that is not cost efficient and cost effective (see Glossary of Terms), and so wastes its resources.

The best route for an organisation to go if it wants financial autonomy is to develop a financing strategy that ensures maximum autonomy from any one source of finance.

Prerequisites for a successful financing strategy

A successful financing strategy requires some preliminary work. Before you can develop and write up your strategy, and before you can implement it, you need:

- an organisational strategy and plan;
- an organisational budget;
- financial systems;
- a public image and visibility;
- value clarity – a clear understanding of the values of the organisation, values which cannot be compromised by the financing strategy.

(For more on some of these areas go to the toolkits on Strategic planning, Action planning, Budgeting, and Financial control and accountability.)

PLANNING

There are other toolkits that deal with planning in detail (See Overview of planning; Strategic planning; and Action planning). Here we want to remind you about the aspects of planning that are important for the development of a financing strategy.

What aspects of an organisational strategy and plan must be in place before you develop your financing strategy?

- You need to know where you are now. This should include general strengths and weaknesses, as well as specific financial strengths and weaknesses. It may be helpful to do a SWOT Analysis.

Some useful indicators against which to measure your current sustainability situation are:

- total number of donors – you need a reasonable number and spread, but not so many that you spend all your time reporting;
- ratio of international to local donors – you need the ratio of local to international donors to be relatively high, if possible, because local donors have a direct stake in supporting your work;
- earned income – you need to earn a reasonable percentage of your income (what is "reasonable" will depend on the nature of your organisation and the work it does) to ensure that you are not totally dependent on donors;
- keeping overhead expenses as low as possible – this means you can do the work, but your core costs are kept low (not more than 15% to 20% of total expenditure);
- the amount of money you have in reserve – you need to build up a reserve fund which can earn interest and give you a buffer against financial crises.

- You need to have a clear organisational vision and mission, and a strategy and action plan for achieving them. Your financing strategy must support your organisational strategy. You need to know what you plan to do and how many staff members and other resources you need to do it, before you work out how much money you will need and how you will get the necessary finances.

- You need to know what your priorities are – what are the most important plans and activities that must be financed even if nothing else is?

How do you go about prioritising?

Prioritising

What is prioritising?

You prioritise when you decide what is most important, what needs to be done, and done soon, even if nothing else is done.

Step 1: When an organisation does its planning, it works out what it would like to achieve. This is a full list of all things it would like to achieve.

Step 2: Then, from this full list, it needs to work out what, at the very least, it will do. These are the things that need to be done if the organisation is to justify its existence at all. This may involve prioritising certain projects or certain activities within projects.

So, for example, an environmental organisation might decide that, at the very least, it must run a campaign in schools. Within that, it may decide to prioritise rural schools because its emphasis is on building strategies for a sustainable rural economy. Or it may decide to focus on urban schools, because its emphasis is on redressing the imbalance between urban and rural consumption of natural resources.

There are different ways of deciding on priorities. All of them require an understanding of the problems being addressed by the organisation, the causes of the problems, the organisational strategy for addressing them, and of what the organisational values are. Once these issues are clear, you could:

- vote at a Board or staff level on priorities;
- debate until consensus is reached.

Some questions to keep in mind when you are prioritising are:

- What are the things that must be done if we are to make any progress at all?
- What can be done relatively quickly and cost efficiently, but still make a significant impact?
- What must be done if we are to keep promises made to communities and other stakeholders?
- What must be done before we can do other things that are priorities?

When you know what you want to do, and what the most important things are that you need to do, you are ready to do your budgeting.

BUDGETING

The key tools for integrating financial management into the overall work of your organisation are:

- the financing strategy; and
- the budget.

You cannot have a financing strategy if you do not have a budget.

What is a budget? (See also the toolkit on Budgeting)

The budget is the document that translates plans into money. The money in your budget is what it will cost the organisation to implement its plans, and what it will need to raise or generate to cover these costs. In other words, both **income** and **expenditure**.

The budget comes directly out of the activities you have planned as part of your strategy to achieve your vision and mission. (See also the Strategic Planning toolkit.)

Stages in drawing up a budget:

1. Use your activity plans to work out what the main headings in your budget will be. You might decide to have a heading "training" or "publications" or "Project A" with sub-headings in it. Under each heading or sub-heading, list **line items**. A line item is a specific expense under the heading. So, for example, under "training", a line item might be "salaries", or "printing" or "consumables".

   At the same time, work out where your money is likely to come from so that you have income headings as well as expenditure headings. Headings here might be "foreign donors", "earned income", "membership fees", "sale of publications" ,etc.

2. Work out how much each line item is likely to cost. You can do this on the basis of information available (e.g. current salaries, costs of printing, etc) or on estimates based on expected increases. For income estimates, look at promises, possibilities, previous experience, anticipated changes. Make notes about how you arrived at all these amounts and keep them filed for future reference.

3. Check your budget. Is it added up correctly? Have you left anything out? Have you allowed for inflation? Show it to others to get feedback.

   Anticipate questions that staff or Board members or donors might ask and attach explanatory notes where an item might cause concern to them.

4. Get approval from staff and the Board for the budget. This may require prioritising and reworking the budget.

Some of the items that are typically included in an organisational budget are:

- staff and other personnel you might contract, with their salaries and benefits;
- institutional costs such as lights, water, insurance, postage, telephone, security and rentals;

- capital costs for new equipment and other physical resources needed to support the work;
- development costs for your staff and for the organisation;
- operational costs for doing the work (e.g. travel costs, materials development, printing).

If the work runs over more than one year, and/or if you intend asking donors to fund it for more than one year, then you need to do projections for future years as well.

We suggest that you prepare at least two versions of your budget. In the next section we look at the options you should include.

Options

Some organisations prepare several versions of their budget. Possibilities include:

- A **survival budget** – the bare minimum needed in order to continue functioning and to justify the existence of your organisation.

- A **guaranteed budget** – this reflects the amount that is guaranteed income.

- A **probable or working budget** – this reflects what the organisation confidently expects to raise or generate.

- An **ideal or optimal budget** – this covers more ambitious projects and programmes that the organisation hopes it will be able to support.

Within these options, budgets can also be broken up into project budgets.

Usually it is enough to have two versions of your overall budget:

- the ideal or optimal budget; and
- the working budget based on what the organisation confidently expects to raise.

These two budgets give you:

- a minimum target; and
- a maximum target.

Your financing strategy should be based on having to achieve the minimum and planning to achieve the maximum.

It is quite acceptable, and even desirable, to share both targets with key stakeholders. This should be done in the context of a financing strategy which shows the practical steps you are taking to achieve the targets.

In order for your budget to be a useful management tool, you also need financial systems for monitoring income and expenditure.

FINANCIAL SYSTEMS

What are financial systems?

Financial systems are the systems you put in place to record income and expenditure, and to monitor income and expenditure. You need good financial systems to know whether or not your financing strategy is working, or what parts of it are working and what parts are not.

At the heart of good financial systems are good bookkeeping systems. These are dealt with in more detail in the toolkit on Financial control and accountability. Here we summarise some of the main points:

A bookkeeping system must provide information that is:

- relevant (tells you what you need to know);
- understandable (tells it to you in a way that you can understand);
- reliable (gives you information that is correct);
- complete (gives you all the information you need to know);
- up-to-date (tells you what your financial position is now);
- consistent (provides information that can be compared with information from previous months and years);
- acceptable to the outside world (in particular to auditors, donors and government departments).

A bookkeeping system must also provide an early warning system. It must be able to tell you when your financing strategy is not working. This may mean:

- warning you that you are spending too much;
- warning you that you are not meeting your income targets;
- warning you that a cash flow problem is on the horizon;
- warning you that there is misuse or abuse of money taking place.

If your financial systems meet these requirements and you have good financial policies in place, then you should be able to develop, implement and monitor a useful financing strategy.

Policies

What are financial policies?

Financial policies guide an organisation so that it can run an efficient, honest and accountable finance system.

An organisation needs financial policies that cover the following:

- opening and operating bank accounts;
- budgeting;
- non-budgeted expenditure;
- petty cash;
- receipts and deposits;
- acquisition and disposal of fixed assets;
- payments and cheque requisitions;
- staff loans;
- use of private motor vehicles;
- car hire;
- long distance travel;
- travel allowances.

It is usually the Board of the organisation that decides what policies are needed and what they should be. In order to implement a financing strategy, you need appropriate policies.

PUBLIC IMAGE

Whatever strategies you include in your overall financing strategy, it is likely that their success will depend on the effectiveness of the public image your organisation has. Effective public relations is an important part of producing income in any civil society organisation. Your public image is your key tool for marketing or promoting the organisation, whether it is to large or small donors, clients, members or potential members or private individuals looking for somewhere they can do some good. No-one will think of you if you do not have some kind of public profile. And you want that public profile to be a positive one with the people who count – your potential target groups. (see also the toolkit on Promoting your organisation.)

Your public image is not something you create with a one off event. It is a combination of many small activities from how your receptionist answers the telephone through to your track record in terms of work.

How do you go about creating a positive public image for your organisation?

Here are some ideas for creating a positive public image to support your financing strategy:

- Have a recognisable logo.
- Have a vision and mission which you can "sell" to the various target groups that might support you, and have a clear strategy, one that people can understand, for achieving your vision and mission.
- Don't compromise on values – your values are what "sell" you to many of your stakeholders.
- Know your environment and where your support might come from.
- Know your supporters well. Everyone has an agenda, whether it is philanthropy or development or economic advantage. You need a public image that appeals to a wide range of agendas.
- Make information about your organisation available in easy-to-access formats, including interesting and attractive annual reports, pamphlets, posters, a website, through satisfied clients, open days and the media.
- Use the media – not only by paying for advertisements, but by doing newsworthy things and making sure the media knows about them. And remember that there is a range of media to use – magazines, newspapers, radio, television.
- Get your staff on your side – make sure that all staff members understand how important their role is in winning support for the work of the organisation.

It is useful to have someone in the organisation who focuses on developing a positive public image for the organisation. And remember that every person who speaks about your work with enthusiasm, either from inside or outside the organisation, is a public relations spokesperson for you.

In the next sub-section we look briefly at some marketing issues.

Marketing

As a civil society organisation, you may be uncomfortable with the idea of "marketing" yourself and what you do. Don't be! Whether it is to donors or clients or communities, you do need an approach that is "market" or "consumer" driven. You have a product, a price of some sort (it may be time or interest or participation rather than money), and you need to promote your product or service to those who might "buy" it. (Some people prefer not to use terms such as "marketing" or "selling" in the not-for-profit context. We choose to use it because we think it clarified what you are doing very clearly. "Promoting" is a softer term – but sometimes something "harder" forces you to think more clearly and competitively.)

Let's take the example of a church organisation. It sees itself as a neighbourhood support service, and wants to improve the quality of life of those people who live in the neighbourhood. It offers a range of services including parenting classes, a youth group and a crêche. People who join a group or use a service pay a small fee. However, membership has been dropping. The organisation does some research and finds that the neighbourhood is an ageing one. Many of the people who live in it are now grandparents. There are far fewer people with small children. So it decides to offer a meals-on-wheels service and sets up a support group for those who have recently lost a spouse. It announces these plans, and why it is making these changes in the local community newspaper. Membership grows almost immediately. The organisation hasn't changed its vision, or its mission, or its values. It has tailored its product to meet the needs of its market. In doing so, it has made the "price" (not only the small fee, but also the effort of participation) more attractive. It has promoted the changes, but also shown its own concern to meet the needs of the neighbourhood.

What if your market is the donor world? The same principles apply. You need to know what work you do could fall within the agenda of the donor community. You need to know what that agenda is. You need to be sure you offer a cost-effective and cost-efficient product. And you need to promote and package what you do creatively and attractively.

What can you do to improve the marketing of your organisation?

Here are some questions you should ask in order to get the three Ps (product, price and promotion) right:

- Who do we want to appeal to?
- What do we hope to get from them?
- What are their needs?
- Can we meet their needs through anything we do?
- Can we provide a quality product/service to meet their needs cost effectively?
- What are the best ways to let our markets know what we can offer them?
- Are our markets getting what they hoped for from us?
- Can we offer something better while still sticking to our vision, mission and values?

VALUE CLARITY

We have already mentioned the importance of values in this toolkit. (See, for example, the section on Contextual Reality.)

What are organisational values?

Values are what we believe in, what we care about, what we think is important. In development organisations, you need to make the values of your organisation clear and explicit. These values should inform the principles, policies and practices of your organisation. They should also, and very importantly, inform the financing strategy of your organisation.

Why is it so important to clarify your organisation's values before you develop a financing strategy?

The search for resources and for ways of resourcing work sometimes leads organisations away from their values. As donors put more emphasis on income generation by organisations, and on sustainability, organisations look around for ways to "make money". They look for clients who can afford to pay for services. They look for services or products they can offer that offer a "good return". Sometimes, they forget why they exist and end up simply existing to survive.

Let us take, for example, an organisation that was set up to train unemployed people in communities in house-building skills – construction, electricity and plumbing. The idea was to give people skills they could "sell" to their neighbours, as self-employed artisans. In an effort to be self-supporting, the organisation applied for a big contract to help in the development of a housing estate. Such a contract, it said, would enable it to train its target group "on the job". The organisation got the contract and made money on it. It found, however, that it was difficult to make a profit using trainees because they took longer than trained people to do the job. So the next time it got a contract, the organisation used people who had already been trained. It also used some of its trainers. This meant it had less capacity to train people from the community. It justified this move by saying the money earned would enable the organisation to keep offering a service to those who could not afford to pay for it. In fact, however, fewer and fewer of the original target group benefited from the project. In the end, the organisation was not very different from a private construction firm. When the organisation made a profit, it used the money to pay higher salaries – after all, if people were doing the equivalent of commercial jobs, they expected to be paid commercial salaries. If the trained people it employed on its commercial jobs had extra time, the organisation used them to train people from the community. It was really just a commercial company with a social conscience. Somehow this organisation had lost sight of its reason for existing and was simply existing to survive.

Another example is a major trade union which decided to invest some of the money from its pension fund. Initially it chose investment options that supported development and treated workers well. But when it discovered it could get better returns from less development-minded investments, it decided to change its portfolio. After all, the pension managers said, in the long run the workers would benefit from better investments. In the end, the fund was investing in corporations with a known record of firing striking workers and paying low salaries.

The only way to avoid losing sight of your organisation's values is to make them very clear and to refer all decisions related to the financing strategy to them. In civil society organisations, the bottom line is not profit. The bottom line is development of people and communities, respect for human rights and a concern for human dignity.

Cross-financing (see Glossary of Terms) can be part of a strategy for financing the organisation, but only when the organisation is aware of the dangers and clear about its values. Development organisations always have to balance their activities so that the bulk of the work and effort has development outcomes and outputs.

Strategic options for financing

Once all the pre-requisites for a successful financing strategy are in place, the next step is to look at which strategic options for financing are realistic for your organisation. In order to make that decision, you need to assess each option in terms of:

- appropriateness for your organisation;
- practicality for your organisation;
- your organisational values (values clarity).

In this toolkit, we look at the following options:

- Donor funding
- Earned income (fees, sales, tenders)
- Membership fees
- The general public (including special events, direct mail appeals, capital campaigns and street and tine collections)
- Investments
- Careful spending.

None of these excludes any of the others. Some, like careful spending, should be linked to all the others.

DONOR FUNDING

However much they may want to be self-reliant financially, most civil society organisations (with the possible exception of some membership-based organisations) will end up relying to some extent on donor funding. Another toolkit, Writing a funding proposal, deals specifically with the issue of donor funding. Here we include some reminders.

- Diversify your donor base, particularly moving away from over-reliance on foreign donor sources. It may be great to have one loyal and generous donor, but it is also dangerous. You may become too dependent on that donor.
- Seek out potential local donors in both the grant-making and corporate sectors. Remember that local donors have an immediate stake in development of people and communities in their geographical locations.
- Where it is appropriate, seek aid from government development aid facilities. So, for example, if you are entitled to subsidies from government, apply for them.
- Use donors for purposes other than normal direct grants. So, for example, donors can:
  - help you leverage other financial resources by putting you in touch with other donors and/or challenging other donors to match grants;
  - help you get a new financing approach off the ground by providing an initial investment;
  - provide capacity building funding to help you develop sustainability or self-financing strategies.

The reality that donor money is important for the survival of many, indeed most, civil society organisations need not make for a dependency relationship. Donors need civil society organisations as partners in development. To make the most of the relationship:

- Lessen your dependence on any one donor by diversifying your donor base and sources of income;
- Make sure that there is a high level of agreement in values and agendas between you and your donors;
- Discuss issues, policies, ideas and problems with your donors;
- Be prepared to challenge and be challenged;
- Do not compromise on your values or vision but be prepared to discuss strategy options;
- Be honest;
- Stick to reporting schedules and requirements.

EARNED INCOME

Many civil society organisations have the capacity to generate some income by selling products or services in some way. The stronger the organisation, the more likely it is to make a success of such a venture. It is also best for the organisation to look at what sort of income generation strategy best suits its current situation, capacity, skills and niche. A community-based early childhood development project is unlikely to make a success of a business venture that involves training businesses to use computers, but it may well be able to sell learning aids it has developed.

Ways in which a civil society organisation could earn income include:

- Charging fees for services (e.g. charging for training that was previously offered free).
- Sales (e.g. selling publications instead of giving them away).
- Taking on government or private sector tenders (e.g. providing low cost housing for workers).
- Starting a business that may or may not grow organically from your development work (e.g. setting up a profit-making organisational development consultancy to run parallel with your development-oriented organisational development consultancy or setting up a toy-making factory when your core business is running a children's hospice).
- Investing funds to earn interest (investments).

More traditional ways of generating income include:

- Appealing to the general public for donations.
- Organising special fundraising events.
- Membership organisations can often generate income from members through membership fees.

The final aspect to consider is not so much your income, but your expenditure. Any effective financing strategy depends on the ability of the organisation to spend in cost efficient and cost effective ways. (See Glossary of Terms and the section on careful spending)

Sometimes, it is possible for an organisation to bring in "money-making" expertise that it does not itself have to start a new business. However, choosing income generating methods that are closely related to the work the organisation is already doing does make it easier for the organisation to stick to its mission. If you decide to do something "different":

- have a good reason for doing so;
- make sure there is a market for whatever you intend to sell, and that the proposed market can afford your proposed prices;
- bring in expertise but make sure that the experts understand the core business of your organisation as well;
- make sure that any "risk" factors are understood and that failure will not bankrupt the organisation;
- make sure you have enough capital to start the business properly;
- make sure your targets for income generation are reasonable and possible;
- clarify how the business will relate to the development work;

- make sure you have the necessary systems, skills and staff to manage the business and its relationship with the development work.

A cautionary tale:

An HIV/AIDS hospice for children decided to generate income by selling a set of rag dolls which were dressed in clothes that had the logo of the hospice on them. The organisation paid a factory to manufacture the dolls, but they did not do any market research on who would buy them, how they would be sold or where they should be marketed. They ended up with an enormous amount of capital sunk in hundreds of dolls which they could not sell. They discovered that the type of parents who had the money to buy the dolls and the goodwill to want to support an HIV/AIDS cause, rather bought dolls which had some "teaching capacity" for their children. This meant, for example, shirts on which children could practice doing up buttons, or shoes with laces that needed to be tied, and so on. By then it was too late. The dolls had been made. The organisation lost half its capital reserves in this venture.

A more positive tale:

This same organisation entered into a support agreement with a local supermarket chain in terms of which the hospice got a small percentage of the profit made on every sale of disposable diapers over a period of a year. This was a great success – for the supermarket chain which got excellent advertising out of the venture, and for the hospice which was able to recoup some of its losses on the doll project.

So, while it is necessary and important for civil society organisations to venture into income generation, they need to do so with great caution and with expert advice, keeping the risk to the organisation to a minimum.

EARNED INCOME

Fees for services

When does it make sense for an organisation to charge fees for the services it offers?

It is often good practice for an organisation to charge for its services even when it is not doing so as part of an income generation strategy. So, for example, an organisation that offers training to community organisations may charge a small fee for running a training course. This may be well below the actual cost but it puts some cost to the training and forces the community organisation to make a conscious decision about the value to it of the training. This empowers the community organisation with choice and gives the training organisation commitment from organisations it is training.

Here, however, we are more concerned with income generation. Charging for services provides an organisation with a way of using its existing skills as a basis for generating income. Often in development work it is unrealistic to expect clients to pay for services because they just don't have the money. But it is possible to balance "paying clients" against "non-paying clients" as a form of cross subsidisation. So, for example, an organisation that provided an advice and support service to women who had been victims of sexual harassment, did not charge the women for the service. However, when companies asked for the organisation's help in developing policy around sexual harassment, they charged the companies.

If you decide to go this route, then be careful to work out your fees so that they cover the actual cost of your time spent, plus a profit margin. This means you need to have a realistic picture of how much time this income generating work is likely to take and any other additional costs it may involve.

Fees for services should include:

- direct salary costs
- associated administrative costs
- a profit margin.

How do you work out an appropriate service or consultancy fee?

Assume a five-day working week which equals about 260 working days per year or 22 working days per month. Public holidays, annual leave, sick leave, study leave, staff training, staff meetings and other organisational planning commitments reduce this number of days. It is, therefore, probably realistic to assume about 190 working days per year. Divide the full annual salary package of a senior consultant (benefits plus salary) by 190 to get a daily rate. If you intend using junior consultants, then you should work out a rate for juniors on the same basis.

To this add a 25% (of the daily fee) administrative recovery cost (see Glossary of Terms), and a 25% (of the daily fee) profit margin.

This will give you an acceptable daily rate for senior and junior consultants. You could, of course, add more or less for the profit margin, depending on your assessment of the market. It is likely that you are doing this kind of work in order to subsidise your core work. You do

not, therefore, want to under-charge.

Be realistic when you calculate how long a particular job will take. This will get easier as you become more experienced. In the meantime, make sure that you include time for:

- meetings with the client;
- internal meetings in your organisation;
- telephoning;
- preparation for meetings;
- preparation of presentations.

In setting rates and preparing budgets for work that involves charging a service or consultancy fee, you need some idea of what are acceptable market rates. Do some research to find out what organisations and companies offering similar services are charging and how much competition there is. This will help you set realistic rates. It may be that you need to cut your profit margin. But remember that you are doing this kind of work to generate income. There is no point in doing it below cost, or even at cost. You need to make a profit from it. Your objective is to make a profit so that you can cross-subsidise other work.

Sales

Many civil society organisations have products which they either give away or charge very little for. Instead of giving these products away, or "selling" them at below cost, you could charge realistic prices for them. These kinds of products include:

- books, publications, training manuals, craft products;
- in-kind donated items;
- new products such as T-shirts, mugs or badges.

You can also "sell" some of your physical assets. For example, if you have a conference hall, you could hire it out when you are not using it. Be sure that the hiring fee covers administrative costs and maintenance and includes a profit. How much profit will depend on the going rate for such facilities. If you have a messenger with spare time, you may be able to "rent" him or her out, charging other organisations for using his or her time. Make sure you cover your costs. If the messenger has a vehicle, then those costs should be included. Again, you can decide how much profit you want to make, based on going rates. Or you may decide that simply covering the costs of the messenger, a service you need but cannot make full use of, is enough. Sometimes the cost saving that comes from sharing resources between organisations is a sufficient incentive and a sufficient contribution towards cost effectiveness.

Another option is to "sell" the asset of your good name. So, for example, an environmental organisation might agree to endorse an environment friendly product in return for a percentage of profit on sales. Do not "sell" your good name lightly. Make sure that the product you are endorsing, and the work practices of the company producing it, meet your standards and make sure that you get a reasonable percentage of the profit made. What is "reasonable" may depend on how much difference your name makes to the sales. Ask the commercial venture for data about current levels of sales and, after a few months, ask for updated data. You can be sure that, if your name is not making a difference, the commercial venture will drop you, and this will be in the contractual agreement. If it is making a difference, you should be able to ask for more, and allowance should be made for this in the contractual agreement too.

How do you work out an appropriate product charge?

A product cost here might also include training, where there are staff costs but also direct costs.

There are two ways of costing your services or goods. You can work out what the **break even** price is on the basis of what it is possible to sell. Or you can work out how many units you will need to sell, at a given price, in order to break even. To do this, you need to understand **fixed costs** and **variable costs**.

Fixed costs are often called core costs or overheads. They are costs that you have irrespective of how many units you produce. So, for example, the cost of developing a publication is a fixed cost. The salary of a trainer is a fixed cost. (For help with working out the hourly or daily cost of staff members, go to the section on fees.)

Variable costs are those costs that vary in total in direct proportion to changes in the level of activity – the more activity, the higher the variable cost. So, for example, the number of

publications you print will determine your printing cost; the number of training manuals you will need will effect the cost of your training.

Before we look at how fixed and variable costs affect the way we cost and price services and goods, you also need to understand what a **contribution** means. When you sell a unit of service or a product (one day of training or one copy of a book), you need to price it so that you cover the variable costs, and so that the sale of each unit makes a contribution to the fixed costs.

The **break even point** is the point at which the supplier of a service or goods has covered all fixed and variable costs, to that point. After that point, the supplier can begin to make a profit, because the contribution is now to profit and not to fixed costs.

There are two ways of doing a break even analysis:

- Method 1: $\frac{\text{fixed costs + variable costs}}{\text{Number of units}}$ = break even price
- Method 2: $\frac{\text{fixed costs}}{\text{Contribution to fixed costs per unit}}$ = break even point

Examples:

An organisation that sells its publications produced a book on budgeting. The organisation's experience in the field showed it that, while there was a demand for such a book, its client group would not be able to afford it if it cost more than $7.50 per book. How many books at $7.50 each would have to be sold in order for the organisation to break even?

The Director calculated that the variable costs for each book were $2.20 for printing costs, marketing and distribution. The contribution to fixed costs, at a price of $7.50, was, therefore $5.30. The book had cost the organisation $ 10 000 to develop (research, writing and layout costs, plus administration and management). So, the fixed costs were $ 10 000. In order to cover all the fixed costs, plus the variable costs for that number, at a price of $7.50, the organisation had to sell 1 887 copies of the book. Using Method 1:

$$\frac{\$\ 10\ 000}{\$5.30} = 1\ 887 \text{ copies}$$

The organisation knew from its research that it could sell at least 3 000 copies over a two year period. It's profit in the two year period would, therefore, be $ 5 898.90. For the first 1 887 units, $ 5.30 would be a contribution to fixed costs. For the remaining 1 113 copies, the $ 5.30 contribution would go to profit.

In this case, the organisation began with an affordable price and worked out how many copies needed to be sold to make a reasonable profit.

Examples:

An organisation that sells training developed a one-day training course. It cost the organisation $ 60 000 in labour (staff time) and materials (printing the facilitator's guide) to develop the course. This included staff management and administration. The $ 60 000 was

the fixed costs. The organisation calculated that each day of training cost the organisation $250 per participant in participant materials, venue costs and food. There were the variable costs. The organisation had done a marketing survey and knew that there would be 300 likely participants in the first year the course was run. The organisation wanted to cover the course development costs in Year 1.

The Head of Training took the fixed costs and divided them by the number of likely participants (300) and, using Method 2, arrived at a figure of $ 200 per participant to cover development costs. To this, she added the variable costs of $250 per day to arrive at a break even price per participant of $450 per day. So, in order to break even by the end of Year 1, the organisation had to charge each participant $ 450. After the first year, by sticking to the same price, the $ 200 contribution to fixed costs would become a contribution to profit. If 300 people attended the course in Year 2, the organisation would make a profit of $ 60 000.

What if $ 450 had been too much for the client group or market?

The organisation could have decided to cut the costs of development, to subsidise the full price and take longer to reach break even point, or to sell more units. Any one of these options would have brought the price down.

Using this kind of discipline in your financing strategy has some added advantages:

- It makes the organisation more aware of cost and time;
- It forces the organisation to plan rigorously, to do marketing research, to make difficult choices.

Tenders

A tender is a document put out by the government (at any level) or the private sector, inviting proposals to do work for which the successful applicant will be paid. Tenders are competitive – the institution is looking for a cost effective service provider. Sometimes (particularly in the case of governments) it may also be attempting to address other social issues. So, for example, it might give preference to minority run businesses or civil society organisations, or it might give preference to small businesses or organisations in an attempt to develop this sector.

Tenders are usually advertised in the media. Some governments have a special tender bulletin. If your organisation is interested in this form of income generation, then it needs to be monitoring the media for tenders. When a suitable tender is advertised, the organisation must contact the appropriate person to get more details and the full tender document. Sometimes institutions hold a special briefing session for those who are interested in tendering.

Each tender document will state specifically what a proposal should include. In general, tendering involves putting in a proposal that describes how you would go about doing the work, why you are qualified to do the work, and how much it would cost the client for you to do the work. (To help you with costing of your time and services, look at the sections on fees and sales.) Be very careful not to under-budget in your efforts to win a tender. Your costing must cover what you consider necessary to do a good job. It does not help you to subsidise the institution putting out the tender, nor to do an inferior job. Your reputation is at stake.

Sometimes a tender may seem too big for your organisation, or you may not have all the skills to do the whole job. You might then think about being part of a consortium or group of civil society organisations that tender for the job. This can work very well, but it takes co-ordination and management. Someone has to be prepared to do this. The cost will need to include paying someone (it could be one of the organisations) to take on this responsibility.

Tendering can be very frustrating. Often you put in a lot of work and, in the end, someone else is awarded the tender. However, it is a way to generate income by doing the work you would want to do any way.

MEMBERSHIP FEES

Membership fees are a way of raising money through dues from members or constituents of the organisation in exchange for some kind of product or service or other benefit. So, for example, members of a trade union pay fees in return for the union representing them in disputes and negotiations. A bird watching society might produce a newsletter or magazine on bird-watching and information about birding events, a neighbourhood watch group might co-ordinate security, and so on.

It is possible to raise large amounts of money through membership fees if:

- you are able to recruit large numbers of members;
- you are able to recruit smaller numbers of members who can afford to pay high dues;
- you offer a unique service;
- you offer a quality service.

Examples of civil society organisations that raise large amounts of money through membership are trade unions and professional associations.

As with all other income generating activities, membership organisations need to cost their services to make sure that the membership fee at least covers costs. If, for example, a membership organisation offers a magazine to each members on a monthly basis, then it is important to cost the magazine fully (including postage and packing) and make sure that the membership fee covers it. (For more on costing, look at the section on sales.)

THE GENERAL PUBLIC

The general public is people like you and me who get requests constantly to give to some charity or development organisation. Not all organisational missions lend themselves to this kind of income generation. A hospice for children dying of AIDS is more likely to get money this way than an organisation that is fighting for legal reform in the Transport Act. There is a well-known saying that people involved in this kind of fundraising often use: people give to people.

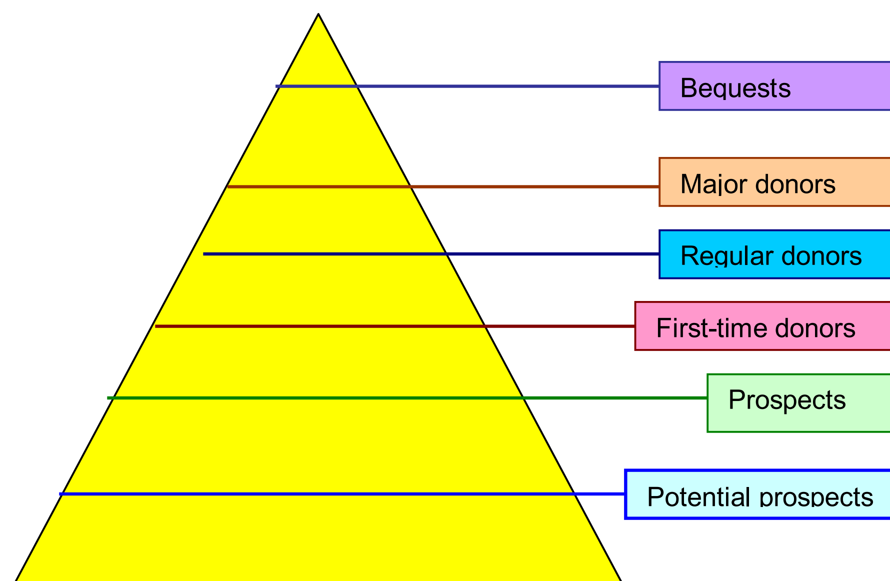
Sometimes people give because they feel responsible, they feel it is important to be part of the solution rather than part of the problem. Mostly people give because they think they might get something in return – that is why national lotteries, with the chance for people to win millions, are so popular. And some people just don't give at all.

As with all other fundraising and income generation, you need to have a clear vision and mission and a high profile to succeed in this kind of fundraising. To do it properly, you probably need someone who is fully responsible for fundraising and has staff support. Some organisations use volunteers for this, but a staff member will still probably need to take overall responsibility.

There is a range of methods that can be used in appealing to the general public. These include:

- direct-mail appeals;
- special events;
- capital campaigns;
- street and tin collections.

People who are involved in this kind of fundraising talk about the **donor pyramid**.



About eighty-percent of gifts will come from the 20% of people in the top three sections of the pyramid and about 80% of your fundraising costs will be spent on getting the bottom 80% of people to give something. Once they begin to give, you have an opportunity to get them to give more and to move higher up the pyramid.

Direct mail appeals

Direct mail appeals are useful for:

- Bringing in new prospects (people who might become regular donors);
- Attracting first-time donors;
- Encouraging repeat givers and renewals.

Direct mailing can be expensive. You have to cover the cost of buying or renting a list, printing the appeal letter, producing an outer envelope and a return envelope, plus bulk postage. It is important to test your direct mailing by sending first to about 10% to 20% of your list and seeing what kind of response you get. If you decide it is worthwhile, then go ahead with the whole list. "Worthwhile" does not necessarily mean that you will get in more money than the mailing costs. In a "cold" appeal – where you have had no previous contact with the people on the list – you will be lucky to get a 1% response. It does mean that you should be able to add a fair number of new donors to your "regular" list. Acknowledge your donors and then service them in some way – through a newsletter and/or an annual report.

Some tips for direct mail: (see also the toolkit on Effective Writing)

- Make the envelope tempting to open – you don't want it to end up in the wastepaper basket, unopened. The more personal the envelope looks, the more likely it is to be opened.
- Make your appeal personal – people give to people. The printed appeal should look as much like a personal letter as possible.
- Write about real people.
- Make sure the opening line of the appeal grabs the reader's attention.
- The opening paragraph should develop the interest.
- Lead the reader to make a decision.
- Ask for a specific amount and say clearly what it will cover – "your gift of $10 will enable a child to go to school for a year".
- Encourage the reader to take action – make it easy for him or her to do something.
- Enclose a response piece – an easy to fill in form that goes into the return envelope.
- Offer a number of payment options – by cheque, credit card, debit order, electronic payment.
- Do your mailing towards the end of the month when people are more likely to have money.
- Be sure to thank people for a donation, no matter how small. See it for what it often is – a personal sacrifice.

Special events

Special events have a double purpose: they help raise money but they also shine a spotlight on the organisation. They are public relations events as well as fundraising events. Examples of special events include:

▪ Auctions	Where donations are auctioned off.
▪ Annual dinners	Smart, once a year events with high-priced tickets.
▪ Music nights or variety concerts	Some perform, others pay to attend.
▪ Opening nights	Of movies or shows, with high-priced tickets.
▪ Sponsored runs or walks	Participants get sponsored for times or distances.
▪ Sports events	Participants pay to participate, spectators pay to watch. It helps to attract people if there is a celebrity on hand.
▪ Thrift shops	More an ongoing activity – in some places they can be big money makers (as with the Oxfam shops in Britain).
▪ Raffles	Donated prizes are raffled. Check the gambling laws so that you don't contravene them.
▪ Fêtes	All sorts of sales and activities.
▪ Cookbooks	People contribute recipes, advertising pays for printing and the cookbook is sold to make money.
▪ Jumble sales	Making money from things people no longer want.
▪ Cake sales	Donated cakes, income all profit.

Some tips for special events:

- Set a fundraising target – know how much you want to raise from an event
- Match the event to the time you have for organising it and the resources you have in terms of money, contacts, volunteers.
- Set a date – check that the venue is available when you need it. Make sure the venue is suitable. Put someone in charge of the venue. It is his or her job (or it could be a committee) to check that there are toilet facilities, that there is a public address system, that the traffic department helps with traffic, and so on.
- Decide on what extras to offer – should you serve refreshments? will you offer baby-sitting or child-minding? Put someone in charge of any extras you do offer.
- Plan your publicity – where will you advertise? In what format? When will you begin your publicity campaign? How can you make your fundraising event a media event? Put someone in charge of publicity.
- Put someone in charge of looking after famous or important guests.
- Put someone in charge of the money. This includes organising money for change, organising security, banking money collected, monitoring money spent and money that comes in.

- Put someone in charge of music and announcements.
- Appoint a trouble-shooter for the event – someone who will deal with unforeseen problems.
- Appoint someone to be in charge of clearing up.
- Have a post mortem – evaluate what went right, what went wrong and what you can learn from the experience.

Capital campaigns

Raising money for a capital project such as a building or a swimming pool or equipment requires special thought.

Depending on how much money you want to raise, the campaign could take between one and three years, or even longer. It is important to keep interest going during and in between periods of activity. One way to do this is to have the target publicly displayed, with progress towards it charted regularly and celebrations when interim targets are achieved. When you reach the final target, celebrate publicly.

Some tips for raising capital funds:

- Develop a case statement which explains what you are fundraising for, why it is important and why it is urgent. Your case statement should also describe your overall plan for achieving your target, and the background and infrastructure of the organisation. Test the case statement to see how people respond to it.
- Have a carefully worked out budget, showing how much the campaign is expected to raise and where the rest of the money will come from.
- Have a gift range chart – what sorts of donations you expect (amounts), from how many people. So for example, you could plan to get 20 donations of $ 25 000 each, 40 of $ 2 500 each, and so on. Then you know how to target for each range.
- Appoint/nominate a campaign committee of influential people who give themselves and who are also good at getting others to give.
- Involve volunteers. No-one should go out asking for money, unless she or he has given something herself/himself. Volunteers should give in proportion to what they can afford.
- Seek out some “status donors” – someone who gives a big gift and gets a building named after him or her.
- Create awareness – get publicity for your campaign.
- Make your big donors feel they have “joined the family” – write personal letters of thank you, get the chairperson of the campaign or the chief executive of the organisation to make personal phone calls, give big donors a creative (not necessarily expensive) token of appreciation, provide them with progress reports, invite them to celebrations.

Street and tin collections

In some countries, street and tin collections play an important role in fundraising. Organisations organise with the city or town authorities to have a day on which they collect money in tins in the streets. This can be accompanied by a street festival or carnival, or some special event to put the public in a giving mood. You can also organise with shops and organisations to have a tin permanently displayed, usually near the cash register where people will be tempted to put in their small change. Well-organised, this can be a lucrative way of collecting money from the general public, from those who would not normally give in response to other forms of campaigning. One disadvantage of this kind of fundraising is that you do not form ongoing relationships with givers. However, if you do it well, members of the public will develop a kind of loyalty to your cause and will be sure to put something in your tins whenever they see them.

Some tips for street and tin collections:

- Put someone reliable, organised and honest in charge to co-ordinate the process. This could be a full-time or part-time staff member or a volunteer.
- Agree as an organisation on policy about security (e.g. access to tins, opening of tins, preventing tins from being stolen), collection points, publicity.
- Have as many collection points as possible. During street collections, keep collection points bustling and active. At cash registers, make sure your tins are easily identifiable. Empty these tins regularly.
- Build in systems to limit the possibility of dishonesty. This means having a central record of where the tins are, controlling how they are emptied and keeping receipts.
- Keep up good relationships with the shopkeepers or managers, let them know how the tin collection process is going, thank them when a tin is full, keep records of how each collection point does. You could even have a “tin collection of the month award”!
- Use volunteers – to shake tins on street collection days and to collect tin takings on a regular basis. Give the volunteers a sense of ownership – give them a cluster of shops to service and encourage.
- Before a street collection, organise some advance publicity.
- Have some attractive and interesting posters that draw attention to your tins. Here pictures and logos can play an important role.
- When you have raised a substantial amount through a street collection or collection points, get publicity to announce it. Nothing encourages people more than being part of a success story.

INVESTMENTS

Investments can be passive or active. ***Passive investments*** earn income from interest on savings or safe investments such as mutual funds***.*** ***Active investments*** require engagement in the stock market and some risk.

Increasingly, it makes sense for civil society organisations to have capital reserve funds. ***What is a capital reserve fund?*** It is a sum of money built up by an organisation through income generation, fundraising and savings efforts over time. This money is invested to generate income. A capital reserve fund is very similar to an ***endowment***. Usually, however, an endowment means a large sum given to an organisation by a donor from which the organisation can earn income through investment. Sometimes, the capital of the endowment remains the money of the donor, but the organisation gets the interest earned. Having a fairly large sum of money to invest provides some form of sustainable income for an organisation, and gives it a degree of self-reliance. However, unless you are very lucky, and a donor agrees to get you going with a big endowment, this is a long-term strategy which requires you first to build up a reserve that is big enough to generate a meaningful income.

Here are some ***questions that your Board needs to answer*** before it gets into investments as a significant source of income:

- What are the benefits of setting aside funds for future income, compared to spending the funds on more immediate needs?
- Do we have the will and the skills to manage a significant investment fund?
- What will the time and money costs be?
- What sort of governance structure and rules need to be in place to manage the fund in an accountable and responsible way?
- How will we ensure that our investments are ethically sound and socially responsible?
- What are the legal and tax implications of such a fund?
- What are the investment options and restrictions?

What are the possible sources of income for an investment fund?

- “Profits” from earned income.
- Interest on donor money (when allowed).
- Exchange gains from donor grants made in foreign currencies.
- Planned savings, resulting from tight control.
- Public fundraising.
- Bequests from individuals (when they leave your organisation money in their wills).
- An internal tax – so, for example, putting aside 1% of all income coming into the organisation. This requires agreement from donors.
- Raising money from donors specifically for a capital reserve fund as part of your long-term financing strategy. Explain to the donors what you are doing and get them to agree to make a contribution.

CAREFUL SPENDING

In summary, this option means simply: reduce costs, follow the imperative to do more with less. This is a good principle in all development work. It requires civil society organisations to be cost efficient as well as cost effective. It enables them to survive financial crises while still fulfilling their missions.

How can you begin improving your cost efficiency?

Some ideas:

- Ask your staff for ideas on how the organisation can eliminate waste and increase efficiency.
- Set up systems to track spending on vehicles, telephones, stationery, photocopying and other items that “eat the budget”.
- Look for items that seem to be consistently higher than you had hoped for. Look at how you can save in these areas.
- Set some achievable goals for cost reduction. When you achieve them, make sure you acknowledge the effort that has gone into making the reductions. It is quite useful to get departments being competitive – who can cut costs the most? You could even have a “cost saver of the month” award!
- In certain situations, it may be possible to offer individual staff members incentives. In one organisation, the cleaner was put in charge of a paper recycling initiative and told she could keep a small percentage of the income for herself. This provided her with motivation and the recycling programme was a great success.
- Sometimes organisations get together to buy in bulk as a way of saving money.
- If you have a national representative body for civil society, it may be able to negotiate discounts with big suppliers.

Keeping costs as low as possible, without sacrificing the quality or quantity of the work, makes it much easier to implement an effective financing strategy. Not only is less money needed, but donors can see that their money is not wasted, and the general efficiency in your organisations is likely to improve.

The Strategy Document

What is the strategy document?

It is the document in which you record your strategy, where you explain why a strategy is necessary, what your strategy is, and why you have chosen that particular strategy.

In this section, we look at the following aspects of the financial strategy document:

- Why it is needed
- What to put in it
- How to use it.

When you write up your strategy, you may find the toolkit on Effective writing useful. In this toolkit, there is an example of a financial strategy document in the example under best Practice in this toolkit.

WHY IS IT NEEDED?

Why is it necessary to have a special document that details the financing strategy of the organisation?

The strategy document serves both an internal and an external purpose.

Internally:

- It helps to consolidate the strategy and to show how the different aspects of the strategy complement one another.
- It provides a reference point for people in the organisation.
- It shows up any contradictions there may be in the strategy.
- It provides a guideline for implementation.
- It provides a basis for monitoring and evaluating the effectiveness of the strategy.

Externally:

- It shows stakeholders what it is you are aiming to achieve through your financing strategy.
- It gives them a basis for seeing where they fit in your financing strategy.
- It provides a “bottom line” against which they can assess your progress towards sustainability.
- It provides them with a yardstick against which to measure your approach to financing your work, and the seriousness with which you take the need for developing a degree of self-reliance.

WHAT TO PUT IN IT

(See also the example under Best Practice.)

What you put into your document will depend on your actual strategy. What follows are some ideas about the general format.

1 Preamble/Introduction

This should explain why, as an organisation, you think it is necessary to have a financing strategy.

2 Principles

This is a statement of the values and principles on which your financing strategy is based.

3 The strategy

It is a good idea to begin your description of your strategy with an overview which describes how you budget, and summarises your strategies for financing the work of the organisation.

Then take each strategy and explain how you intend to implement it. In each case, specify where responsibility for implementation will be located.

4 Conclude by explaining how and when the strategy will be monitored and evaluated, and how the organisation will report to stakeholders on the effectiveness of the strategy.

This provides a basic outline for a useful financing strategy document. You could also attach, as an appendix, an implementation or action plan. (See the toolkit, Action Planning.)

HOW TO USE IT

Once you have the document, what do you do with it?

Again, you will use it differently internally and externally.

Internally:

- Circulate the document as a draft and ask for comment from Board members and staff.
- When the document is finalised, develop indicators for measuring progress and achievement from the document. (See also the section on monitoring and evaluating your financing strategy.)
- Develop an action plan from the document, detailing the implementation process. (See also the toolkit on Action Planning.)
- Refer back to the document at least annually to identify the organisation's strengths and weaknesses in terms of implementation and the strategy's strengths and weaknesses in terms of contributing to financial sustainability.
- Use the document as a basic reference point for new staff and Board members and for old staff and Board members who are unclear about what you are trying to achieve and how you are trying to achieve it with regard to financial sustainability and relative autonomy.

Externally:

- Make the document easily available to all stakeholders. If necessary, do an accessible summary.
- Include the document in the documentation that accompanies your approach to donors.
- Provide stakeholders with reports on progress towards goals.
- Use the document as a reference point in negotiations with donors and clients.

Making the strategy work

Once you have met the prerequisites for a successful financing strategy, critically considered all the strategic options for financing, written up your strategy, and done your action planning, nothing remains but to implement the strategy!

What can you do to make sure that the strategy works?

In this section of the toolkit we look at some steps you can take to give your financing strategy the best possible chance of being successful. We look at:

- record keeping
- skills needed to make the strategy work
- dealing with staff resistance
- monitoring and evaluating your financing strategy.

RECORD-KEEPING

A mistake that organisations sometimes make is not to keep differentiated records for each of their income generating strategies. By keeping separate records, you should be able to see which parts of the strategy are working and which are not. Good records also help you to build up a clear profile of donors, both large and small.

What records do you need?

Profile-building records

These include:

- A record card (cards can be "real" or "virtual" – computer data entries) for each of your:
  - corporate or large donors
  - individual or private donors
  - clients or customers (who pay for services or products)
  - members (if you are a membership organisation).

These cards are an invaluable guide to you in refining your financing strategy and in building a personal relationship with your donors and clients.

If you are using a computer data base, remember that you need some form of back-up. You do not want to lose all your information because your computer "crashes". If you are using a paper system , with cards, then make sure you keep it in a fireproof cupboard.

The kind of data base you need here will include the following:

- Donor name, address, title and salutation (greeting).
- Date when the donor's name was added to your list.
- Date of donation, how much was given and what stimulated the gift.
- A member or donor code-number.
- Whether the donor is a corporation, a group, an agency, an individual or a foundation.
- Other contact details.
- Who, if anyone referred the donor to you – remember to thank the referee.

Monitoring records

These include:

- A bookkeeping system that provides you with differentiated information about each of your financing strategies. This means that your system can provide you with information about the income generated from each strategy, each month and over time, and the costs incurred for each strategy, each month and over time. With this information, management can make informed decisions about which strategies are worth pursuing and which are not. While these decisions are not always financial, the financial information is necessary in order to make them.

For example: A charity organisation held an annual “Miss Charity” competition. When the organisation did a financial analysis of how much money this competition brought in, and how much it cost to stage each year, it found that the organisation was actually losing money. However, the competition attracted teenagers and brought in volunteers. The organisation decided to continue with the competition, cutting costs as much as possible and aiming at breaking even financially while “winning” in terms of volunteers and good will to the charity. It no longer saw the competition as an income generating strategy but rather as a public relations activity.

- A bookkeeping system that enables you to monitor the achievements of your strategies against the targets you have set, monthly and over time. This enables you to take remedial action when a strategy is not doing as well as had been hoped, and to plan your cash flow effectively. (See also the section on monitoring and evaluating your financial strategy and the toolkit on Financial control and accountability.)

Each financing option should be treated as a separate cost centre. Within cost centres, you want the following information:

- Fixed or overhead costs (see the sections on Fees and Sales).
- Direct costs (see the sections on Fees and Sales).
- Share of overhead costs to each option from administration, finance and data processing.
- Income generated.

SKILLS NEEDED TO MAKE THE STRATEGY WORK

To make your financing strategy work, you will need to have or acquire certain skills in your organisation. Some of these skills will depend on the strategy options for generating income that you choose. So, for example, if one of your strategies is to build up your capital reserve fund in order to use investments as a source of independent income, then you will need someone in the organisation, on the staff or Board who has some idea about investments.

There are, however, certain skills that you will need whichever options you go for. Some of them are management skills, some are financial, and some are public relations.

Management skills

Management skills are necessary to ensure that the planning, human resource management and monitoring and evaluation necessary to successful income generation approaches are effective. The sorts of skills you need here include:

- strategic planning
- action planning
- staff recruitment and selection
- performance management
- monitoring and evaluation.

(There are toolkits on strategic planning, action planning and monitoring and evaluation.)

Financial skills

While the organisation will clearly need bookkeeping skills, everyone at management level should also have a range of skills which include:

- reading and interpreting financial reports
- budgeting (see the toolkit on this)
- costing (see also the sections on fees and sales)
- funding proposal development (see also the toolkit on Writing a funding proposal).

(See also the toolkit on Financial control and accountability.)

Public relations skills

You need are skills around:
- networking
- profile building
- communicating
- writing
- public speaking.

BASIC PRINCIPLES

Making the strategy work

DEALING WITH STAFF RESISTANCE

Not all the staff of civil society organisations will automatically buy in to the idea of a greater emphasis on income generation. In most organisations, there will be some resistance along the lines of:

- “Money doesn’t solve development problems – people do!”
- “We didn’t get into development work because we wanted to make a profit.”
- “It’s not my problem – it’s management’s problem.”
- “If we spend all our time worrying about how to generate income, what will happen to the **real** work of the organisation?”

No financing strategy will work without staff commitment and “buy in”. In fact, if there is an emphasis on generating income it may lead to low staff morale and people leaving.

How do you go about getting staff “buy in”?

Some ideas:

- Be transparent about the finances of the organisation – and make sure that your staff understands your financial situation and its implications. This may mean basic training in reading and interpreting financial reports. It may require monthly meetings at departmental and/or organisational level to go through figures. It will certainly require honesty.
- Be very clear about the value base of the organisation and its “ethical bottom lines”. There should be a clear understanding in the organisation that the purpose of the financing strategy is to support the work to which the organisational vision and mission commit the organisation. The purpose is not survival at all costs. (See also the section on value clarity.) If you are an organisation that provides support to rape victims you may not want to have a beauty pageant to raise money.
- Include staff in your planning processes.
- Identify and illustrate how simple cost cutting measures can free money to do the work of the organisation. (See also the section on careful spending.)
- Where feasible, provide some incentives. These could include a “finder’s fee” for consultancy work, a bonus for a team that does good work on a particular job, and so on. However, it is very easy to fall into the trap of rewarding income generating work rather than development work, so beware of this potential pitfall.
- Possibly a better way of providing an incentive that stays within bounds is to challenge staff to raise a percentage of their own salary package through new business or new funding they bring into the organisation. This can also be done on a team or departmental basis.
- Acknowledge efforts (even when they are not as successful as hoped for). Find ways to show appreciation for staff when they take ownership of organisational strategies. (See also the section on careful spending.)

BASIC PRINCIPLES

Making the strategy work

MONITORING AND EVALUATING YOUR FINANCING STRATEGY

We have already talked about the importance of record-keeping. Without proper records (financial and administrative) you will not be able to monitor and evaluate your financing strategy.

Why do you need to monitor and evaluate your financing strategy?

Through monitoring and evaluation you can learn which options for financing work for you and which do not. You can learn why certain options do or don't work for you, and you can make intelligent decisions about what to do and what not to do.

Some ideas for monitoring and evaluating your financing strategy:

- Know what works and what does not work for you.
- Know how much each option you try costs.
- Identify hidden costs and hidden benefits. So, for example, staff time might be a hidden cost, and increased profile might be a hidden benefit.
- Be alert for early warning signals (e.g. costs too high, returns too low).
- Take corrective action when you can see something is going wrong. So, for example, when you pilot your direct mail, check the returns before you go to scale (go much bigger) and, if necessary, adjust your target or your literature, or even scrap the whole thing.
- Prepare monitoring reports for your management and Board.
- Evaluate your efforts over a year, looking at your cost to income ratio – how much did your strategy cost and what income did it yield? Do this overall (globally) but break it down into the different options as well.
- On a monthly basis, look at progressive targets – are you on track (likely) to achieve the targets set? If not, what can be done about it?
- Use tables and graphs to show trends. (e.g. targets against actual, monthly over a year.) These are especially useful for people who are not very financially literate.
- Use the information to arrive at conclusions and make decisions.

BEST PRACTICE

Examples

Example of a Financing Strategy Document

1. Preamble

The Centre for Policy Development and Implementation (CPDI) is a non-governmental organisation, committed to promoting democracy both locally and internationally, through independent research and policy analysis. We believe that constructive criticisms of existing and proposed policies, and the development of alternative policy options for debate and discussion at all levels of society, strengthen a democratic ethos in society. We are, therefore, committed to continuing to provide an independent voice, and to supporting the efforts of other agencies operating from a similar stance in policy analysis for the foreseeable future.

To this end, we have devised a financing strategy to ensure that we have the resources to sustain our work and our independence for at least the next ten years.

2. Principles

While we are committed to continuing our work, we do not believe that “survival at all costs” is an acceptable position. We therefore premise our financing strategy on the following principles:

- We will not undertake any work which compromises our independence, the quality of our work or our integrity;
- We will not work with any institution which we believe intentionally undermines the principles of democracy;
- We believe we are accountable to the wider community of people in our country and on our continent for the responsible use of all resources which are put at our disposal;
- We believe that it is necessary to take on work commissioned for a special purpose, both to sustain ourselves financially, and because such work can be directly useful in terms of our commitment to democracy. We also believe, however, that there are areas of investigation and debate which will not attract commissions but with which it is essential to engage in pursuit of the goal of entrenching democracy. We, therefore, commit ourselves to raising money to enable us to work in these areas. While it is not possible to set absolute quotas for such work, we believe that at least 30% of our work in any given year should fall into this category. Our budgets and our financing strategy are premised on this understanding.

3. Financing strategy

Our financing strategy is based on the following:

- A five year budget which is presented in three versions: minimalist (the very smallest amount of work that must be done to justify our existence); probable (the amount of work

we believe we can expect to resource); optimal (everything we would like to do in that period);[1]

and

- A five-pronged strategy, combining donations, income generated from interest on a capital reserve fund, income generated from commissioned work, income generated from services, and cost control.

3.1 Donations

We are aware that we are operating in an environment of tightened options for donations. However, we believe that, on the basis of revised budgets, based on a clarification of our strategic direction and on specific targets for donations towards core funding, we should be able to continue to raise something in the region of 30% of our proposed expenditure (probable budget) through non-specific donations. In the past, we have called this core funding. However, we have now taken a decision that core costs will be spread across all our areas of income generation, including donations, but not specific to it. This is in line with our budgeting practices.

Money given as an unspecified donation will be used to finance prioritised work for which specific commissions are not obtainable. We have drawn up a list of prioritised work for the next three years, and every effort will be made to match this work to available commissions. Where the work is seen as urgent, and no such commissions are available, we will use unspecified donations to finance the work.

To ensure that this money can be raised, we are taking the following steps:

- Consolidating relationships with existing donors, on the basis of our strategic plan and revised budgets;
- Setting up a small staff committee to co-ordinate the identification and investigation of other options;
- Employing a staff member dedicated to providing public relations and administrative support to this committee;
- Developing publicity materials to support our efforts in this area; and
- Setting up a regular reporting mechanism to track our success in this area to ensure that targets are met.

Both the Director and the Deputy Director will play a key role in supporting these efforts, and the Director will be tasked with driving the process.

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[1] These budgets are attached.

3.2 Interest on a capital reserve fund

While we continue to believe that we can, in the short-term, seek unspecified donations, we acknowledge that the climate for this is likely to become increasingly difficult in the medium to long term. We are, therefore, committed to building up a capital reserve fund, the interest from which will be used in the same way as donations. Over the next five years, we intend to raise $ 3 000 000 for a capital reserve fund. We have already been promised $ 1 000 000 by the X Foundation, and this will provide the basis of our capital reserve fund. The remaining $ 2 000 000 will be raised in the following ways:

- All interest from money in the capital reserve fund will, for the next three years, be reinvested in the fund.
- A serious effort will be made to engage other international foundations to persuade them to contribute to the capital reserve fund. To this end, a carefully planned visit to the United States and Europe, spearheaded by the Director and a high profile Board member is planned for 2004.
- A 5% levy will be imposed on all unspecified donations towards the capital reserve fund (this will, of course, be done in consultation and negotiation with donors).
- Wherever possible, commissioned work will be costed in such a way as to enable a 2% levy to be paid into the capital reserve fund.
- Any profit made on subscriptions or publications will be paid into the capital reserve fund.

The building up of the capital reserve fund will be the specific responsibility of the Director. He will provide a monthly status report to the management committee and will present a full report to every Board meeting, based on progress against targets.

3.3 Income generated from commissioned work

By commissioned work here is meant specific research and policy analysis work for which a client pays. The sources of such work could be:

- requests from clients;
- proposals “sold” to clients;
- research staff bringing in work and clients on an incentive basis;[2]
- successful quoting for non-government contracts;
- successful tendering for government contracts.

This work will need to cover approximately 70% of the CPDI budget for the next five years. Targets have been set on this basis.

The following steps have been taken to ensure that targets can be met:

- A senior staff member has been given specific responsibility for approaching selected government departments to discuss possible collaborations, for monitoring the Tender Bulletin, for following up discussions and tenders, and for reporting on progress on a monthly basis to the management committee.
- The Deputy Director, together with the Public Relations Officer and the Publications Officer, are developing a “sales pack” for use during a series of visits which the Deputy Director and the Public Relations Officer will make to potential clients, including a range of donors who have expressed their willingness to commission work in the future, rather than to make unspecified donations.
- The Director and the Deputy Director will do all budgeting for such projects in consultation with a designated Project Head, whose responsibility it will be to manage the project, and to bring it to fruition within budget constraints.
- Mechanisms have been put in place to ensure that the consistently high quality of CPID work is maintained.

This area will be the joint responsibility of the Director and Deputy Director. The Deputy Director will present a monthly report on this area of work to the management committee, reflecting progress against targets. He will also report verbally to the Board at every Board meeting.

3.4 Income generated from services

By services here is meant:

- subscriptions;
- publications;
- seminars;
- conferences;
- library services.[3]

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[2]These incentives are currently being negotiated with staff.

[3]This has not previously been seen as an external service, but we believe it can be developed into one which offers, at least, literature searches.

At the moment, none of these services generates any profit, and most do not even generate any income. While it may take some time to turn this situation around, we are committed to doing so. The following steps have been put in place:

- All services are in the process of being carefully costed and will, in future, be treated as cost centres.
- Once this is done, a decision will be made, with reference to our strategic plan, as to which services should be continued.
- Income retrieval targets and, where possible, income generation targets will be set for each service area. The responsible staff member in each case will be asked to develop an income retrieval/income generation plan, with support from senior staff members, and to report against this plan in writing on a monthly basis.
- A stratified marketing and presentation plan aimed at different target groups, as identified in the strategic planning process, will be developed for subscriptions and publications.

Overall responsibility for this area will lie with the Deputy Director.

3.5 Cost control

This last area has to do with careful costing, cost control and monitoring of finances. As an organisation, we believe that this must be taken very seriously, as it has the potential to undermine all our efforts in other areas. In order to ensure that it supports these efforts, rather than undermining them, we have instituted the following steps:

- Redesign of our chart of accounts, budget and financial reporting along cost centre lines, with a specific senior staff member responsible for each cost centre;
- The employment of a dedicated bookkeeping service to ensure that financial information is timeously available;
- Monthly meetings of all cost centre heads at which monthly financial reports are presented and discussed, problems are identified, and steps are taken to address problems.
- Individual and team recognition for significant cost reduction or control.

The Deputy Director and the Administrative Director will be responsible for this area.

4 CONCLUSION

We believe that the above forms the basis of an organisational financing strategy which is reasonable and achievable. A six monthly meeting of senior staff will review its implementation and make adjustments where necessary. Overall responsibility will lie with the Director who has full authority to take all reasonable steps to ensure the success of the strategy.

CPDI
June 2003

BEST PRACTICE

RESOURCES

The following were used extensively in the development of this toolkit and we wish to acknowledge them as invaluable resources:

Cannon, Lisa — Life Beyond Aid, Interfund, 2000

Cuthbert, David L — Money that Matters, J P van der Walt, Pretoria, 1992

Olive Publications — Ideas for a Change Part 8 Financing Your Organisation, December 2001

Shapiro, Janet — Financial Management for Self-reliance, Olive 1995

GLOSSARY OF TERMS

Administrative recovery cost	An administrative recovery cost should cover the costs of administration staff, the director's office, head office expenses, depreciation and governance. While 25% of the salary cost is probably a reasonable estimate, it may be useful, from time to time, to do a more exact calculation in order to make sure that the organisation is not subsidising the clients.
Core costs	Core costs or expenses are the overhead expenses of an organisation which do not usually change much, no matter if the organisation serves 50 people or a hundred, has one project or 10. Included in core expenses are items such as rent, administration costs, management costs. Some donors are reluctant to fund core costs, preferring to fund programme or project work. Programme expenses include such items as the cost of developing and printing a manual, workshop expenses, field trip expenses, and the salary of a project worker.
Cost efficient and cost effective	Cost efficient means that the least possible money is spent to achieve a result. Cost effective means that the money spent has the desired result.
Cross-financing	Cross-financing is the practice of using the ability of an organisation to earn income through some of its activities as a way of subsidising activities that do not generate income.
SWOT Analysis	A SWOT Analysis is a planning tool to help you work out your **s**trengths and **w**eaknesses, as well as the **o**pportunities and **t**hreats facing the organisation.