

# Financial Measures for Ngo's

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**Abstract – Non-government organizations are important institutional players in non-formal interventions including health, education, tertiary and primary care including aged, policy and institutional building, governance awareness, etc. In a developing country like India, their role and participation is crucial to extensively cover and deliver quality services. According to recent statistics, India annually raises anywhere in between 400- 800 billion INR. Many of these organizations are run under state trust acts or as societies or companies act.**

**There are several stake-holders involved in functioning and growth of the NGO. The board and management are focused on raising funds and deploying them to meet the objectives of the NGO. The donors are interested in channelizing their contributions through NGO to meet social interventions deemed appropriate.**

**Keywords: Financial, Measures, NGO**

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## INTRODUCTION

Government and regulatory machinery are concerned about the sources of funds, utilization and management of funds so that inappropriate activities do not happen.

An NGO faces difficulty in the areas of accountability, transparency, internal control mechanisms and financial management.

For the organization to be accountable, it must explain how it has used its resources and what it has achieved as a result to all stakeholders. Every person in the organization has a moral responsibility to follow the policies and procedures. Transparency can be achieved only through maintaining complete records and disclosing them without any window dressing or hidden information. Being a voluntary organization an NGO has to have members who work with integrity and aim towards achieving the objectives. Internal control becomes essential for any organization to monitor and measure the integrity of individuals and also keep a check on the smooth functioning of the activities. Finally, NGOs need guidelines to increase trust and awareness about the organization.

In order to align the activities with their objectives and to meet the donor accountability NGO's need to measure and monitor performances of various groups. An NGO's performance can be measured by how well it achieves the goals it has set itself and at what efficiencies.

The two principal functions of performance measurement systems are, firstly, to ensure that organizations are held accountable for their performance and actions; and secondly, to facilitate learning and improve performance. Performance measures for an NGO could be both financial and non-financial measures. Such an integrated view would offer a comprehensive link between several units within an NGO (right from resource generation unit to program management unit). Such a comprehensive framework is highly recommended.

A vital measure to evaluate the quantitative parameters is the financial statements of organizations. These statements provide the stakeholders with an insight on the financial situation of the organization and facilitate better planning and monitoring of activities. With soliciting and using the donor funds comes the responsibility of being able to justify and provide clarity on the usage of funds and also plan for effective utilization of the limited resources. Therefore, transparency is an essential condition for accountability.

NGOs are striving to gain the confidence of their donors and internally create a committed organization. Many NGOs are proactively deciding what more can they inform their stakeholders. The disclosures in the financial statements are better and if any person from anywhere in the world is able to understand the financial statements then the objective of transparency is achieved.

## FINANCIAL MEASURES FOR NGO'S

Many NGOs are adopting the IFRS (International Finance Reporting Standards) system of reporting to increase the quality of information. These financial statements prepared using common accounting standards across the globe would help the donors and other stakeholders better understand and analyze the financial condition of the organization.

Understanding the purpose of objective measures to meet the needs of each stakeholder paves the path for defining and institutionalizing them.

The finance staff would be interested in the complete financial statements as they would evaluate the current financial condition and financial sustainability of the organization. To ensure an effective and efficient utilization of resources to achieve the organization's objectives.

Donors are the lifeline of any NGO. The donors would look at the statements to understand how their funds are being utilized and whether to consider supporting that organization in the future.

The aim in analyzing and interpreting financial results is to assess the financial health of the organization, compare the performance over the years or with other organizations, effective decision making and better planning for the future. Financial statement is also an important source of assessing the risk in the organization and taking appropriate measures to mitigate them.

The risks associated with an NGO could be that of fraud, theft, volatility in costs, exchange risk etc. These risks could be mitigated through appropriate internal checks, constant review of the financial records and updated information and timely action.

Financial sustainability for an NGO would mean the long term support that these organizations provide to their beneficiaries. Hence, to support these activities the NGO must have sufficient funds to function and service not just today but also in the future. This financial sustainability would be a result of good financial management which would include planning to foresee and predict, organizing to work as per the plan, monitoring the activities to compare and match to the original plans and reviewing the activities performed.

The usual norm followed is that if the ratio is high then the donor dependency would be high and if the ratio is less, the organization is independent and there is less reliance on the donors to generate income. Accordingly there is another view point to this. Considering the donor income it becomes very essential to analyze the number of donors contributing to that income. The donor mix is an

indicator of the concentration of donations through limited donors which poses a risk to the organization.

To de risk the organization it becomes important to dilute the donor income or have a dispersed donor mix which reduces the risk of dependency on limited donors. This would be a true indicator of donor dependency and a measure to increase donors.

Trend analysis of the key financial measures would help us know how the organization is performing when compared to last period. What has been the growth, the increase in projects and the expansion through the years? By comparing it may be possible to detect trends and use this information to forecast future trends or set targets. The trend analysis becomes more meaningful if combined with the ratio analysis.

In recent years the concern for quality has created a greater demand for more performance measurement strategies. The NGOs are under pressure to invest more in evaluating the work and measuring its implications both financially and non-financially. A measure of non-financial performance is essential to provide a balanced view of organizational performance.

The scarcity of resources and increased competition from other organizations for funds has elevated the need for the NGOs to measure and proactively manage organization performance. The NGOs are accountable to their stakeholders most importantly to their donors and beneficiaries.

## DISCUSSION

The analysis of financial statement is usually a post hoc measure detailing the result of the performance whereas on the other hand the non-financial parameter elevates the measurement for strategic re-organizing and continuous improvement to better the performance. NGOs should consistently measure the impact of the activities and efforts on the society and individuals and the progress made towards achieving the set objectives.

To determine the ability of an organization to constantly grow and improve, the NGOs need to keep a track of the changes within and outside the organization. Necessary skills and tools in employees are essential to drive the strategic goals and align with organizational objectives. Another measure of performance in NGOs could be the level of relationship maintained and built through the years.

The number of new donors added during the year or the repeatability of donors through the years. The jobs created during the year are also an

indicator of the organization's development each year.

The NGO sector as a whole has traditionally been dawdling in measuring and improving its organizational performance. This partially is because employees often see their aims as somewhat less visible and quantifiable than the profitability and stock market measures that the business sector concentrates on.

Performance measurement gives an overview of organizational deficiencies and thereby there is a greater chance to discover the relevant areas where improvements are needed and where rationalizations are most urgent. A performance measurement system involves creation of an information feedback system by which management identifies, monitors and takes action to improve selected key performance indicators that tracks the organization's primary performance areas.

Performance measurement as a tool demonstrates and improves efficiency in both the financial and non-financial aspects of the organization. A fully integrated approach to performance measurement is a prerequisite.

## CONCLUSION

The organization has to strike a balance between the optimal utilization of the financial resources combined with the efficient and effective non-financial resources. Such measures give an organization a more informed view of their performance and better understanding of the impact they are able to create on the communities they serve. Good performance is a criterion whereby an organization can determine its capability to achieve its objectives and prevail.

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