



Planning for Institutional Development and Developing Budgets and Financial Management Systems

From Governance and Institutional Development in Foundation Building Sourcebook: A practitioners guide based upon experience from Africa, Asia, and Latin America

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Section 3 **Planning for Institutional Development and Developing Budgets and Financial Management Systems**

This section lays out issues related to strategic planning by the Foundation for Community Development (FDC) and illustrates the development of budgets and financial management systems by the Philippine Business for Social Progress (PBSP). Also explored here is the financial reporting system set up by the Esquel Ecuador Foundation (FEE) for their grantees.

Example 1: Strategic Planning Process
Foundation for Community Development (Mozambique)

Example 2: A Financial Planning Package
Philippine Business for Social Progress

Example 3: Financial Guidelines and Procedures for Grantees
Esquel Ecuador Foundation

Why Plan for Institutional Development?

Guided by its mission, Mozambique's FDC has created strategic plans to facilitate the foundation's work. Within the context of what it plans to accomplish—economic and social goals as part of their programs—FDC has taken care to also make plans for its own organizational development so it can better meet its goals. Such planning is an on-going process that should be evaluated as the organization develops and new community needs arise. The strategic plan can help define the foundation's needs in terms of funding, expertise and staffing requirements.

Part of a strategic plan is also developing a financial plan that will enable the foundation to carry out the envisioned program and organizational development plans. The Philippine Business for Social Progress has developed a systematic procedure in creating a financial budgeting structure.

When Should Foundations Plan?

Apart from going through intensive planning sessions when their foundation is created, foundation leaders should constantly be reassessing the needs of the community it serves, the strengths and weaknesses of the staff, the financial sustainability of the foundation and the impact of programs on the community. Foundations may choose to strategically refocus their programs, their staff structure, governance structure, or any other aspect of the organization as they grow, as demands and needs change, or as the political or economic context within which they work alters. In the case of the PBSP, the five year financial plan is flexible and refined annually, semi-annually and quarterly.

What Are the Considerations Foundations Should Be Aware of When Deciding to Go Through a Strategic Planning Exercise?

Usually, when an organization is going through a strategic planning process, the staff and Board members are involved in several discussions sessions over varying periods of time. Some organizations such as the FDC, whose strategic plan is featured in this chapter, decide to hire outside consultants to guide the process and put together the final documentation. Others may choose to carry out the planning internally. The organization may decide to focus only on program planning or institutional building rather than every aspect of the organization. These decisions depend on the specific needs and internal staff and board capacity of each organization.

The example from the FDC outlines the methodology used in the planning sessions as well as the outcomes of the discussions.

What Is the Purpose of Having a Financial Management System?

Just like any other nonprofit organization or business, a foundation should have a comprehensive way to keep accounts of incoming and outgoing funds. The budget should reflect the expected costs for running the foundation and for operating programs. The budget can be altered as situations change such as unexpected increase in costs or unusual success in fundraising.

A budget is necessary in fundraising efforts. Transparency in accounting is also sought and expected from foundations by donors. A foundation that gives grants also needs to have a standard guideline with clear reporting instructions that their grantees can follow when reporting on the grant. It can be expected that after operating over several years, a foundation's budgetary projections will become more accurate.

Who Is Responsible for Designing the Budget and Maintaining the Financial System?

During the early stages of organizational development, the Board and staff will need to draw up a budget estimate of operating costs required to run the foundation. The Board will also have to define the policies of financial management such as compensation for staff, travel advances, petty cash and other items. The Finance Manager or Accountant usually takes the responsibility for day-to-day account keeping. FEE also designed a comprehensive financial reporting system for their grantees to follow.

This section draws on the experience of two foundations with established financial management systems. PBSP Financial Managers created forms that lay out the timeline within which each department head must submit a budget plan for the following year. Reporting guidelines that FEE provides to its grantees are also included.

Summary Points

Having an institutional and financial strategic plan can guide the foundation's development over the long-term. The FDC went through a strategic planning session two years after it was founded to focus its programs and overall goals to fit the new political and social needs of the country. Strategic planning helped it to prioritize its institutional vision over the long-term rather than ad hoc programs with only short term considerations.

Preparing a strategic plan can allow for staff and board to be involved in the process of long-term thinking about the foundation. This can create a feeling of ownership of the vision of the organization for the staff and board.

Creating a five year budget plan can help set the parameters for annual budgets. PBSP goes through a strategic planning process every five years which includes the preparation of a five year budget. The plan it develops is flexible and reviewed constantly to account for changes and adjustments. This allows the staff and board to work within set targets.

Having detailed financial reporting guidelines for grantees can help ensure high standards. FEE has a detailed financial reporting system set up for its grantees. The stringent guidelines help ensure high standards of financial reporting. FEE also provides technical assistance to grantees that require assistance in meeting the reporting criteria, which is meant to build their capacity for accountability and transparency.

Example 1

Strategic Planning Process

Foundation for Community Development (Mozambique)

The Executive Director of the Foundation for Community Development (FDC), gives an explanation for the need for FDC to enter into a strategic planning process in 1996:

At the time that the FDC was founded, Mozambique was just beginning to stabilize after years of war. Once we as an organization had hired some of the staff we needed and gained some experience as a grantmaker in our society, we wanted to look at development as a longer term process and to plan for it.

FDC was formally launched in 1994 and was ready to redefine its role with more strategic and long-term vision within a new political context taking into account the arising needs of the communities. An outside consultant was hired to help guide the foundation through the process.

How FDC Engaged Stakeholders in Strategic Planning

In September 1997, FDC of Mozambique held a three-day Strategic Planning Workshop for Board members, staff, and NGO partners with the help of an external facilitator. A main discussion question was assigned to each day of the

workshop. For the first day it was “Where are we and who are we?” Day two covered “What should we do?” The final day’s question was “How should we do it?” The schedule for the first day is given below:

Discussion of methodology, objectives, norms, expectations, how we work
Interventions from FDC leaders and facilitators (30 minutes)

Diagnostic of social, economic, and political environment in the Mozambique community and nation in the 21st Century
Analysis of factors in group sessions (45 minutes)
Presentations and commentary in plenary session (45 minutes)
Analysis of strategic position of FDC, its comparative advantage in the Mozambique context
Analysis of resources and institutional fluxes (45 minutes)
Presentations, analysis, institutional mapping, and discussion in plenary (60 minutes)
Discussion of fundamental values and mission of FDC
Workgroups (25 minutes)
Presentation and discussion (35 minutes)
Identification of priority areas for intervention by FDC
Role playing in external evaluation (75 minutes)
Analysis and discussion (30 minutes)
Lessons for the institutional strategy
Plenary discussion (60 minutes)

In an exercise on the “Identification of the role of the FDC by area of activity,” the board and staff participants in the workshop were asked to fill out five sheets on activities in the areas of 1) policies and strategies for development; 2) institutional development; 3) economic development; 4) social development; and 5) [mobilizing support for] community development.

The instructions were to assign the priority level that corresponds to the importance of FDC’s role in accomplishing each of the activities, with “2” meaning a principal role, “1” a secondary and “0” no role. The sample sheet, from Area 5, is shown:

5. Activities in the area of [mobilization of support for] community development
 - Grantmaker
 - Financier
 - Capacity Builder
 - Networker
 - Advocate
 - Convener
 - Other
- 5a. Co-financing of community development initiatives in partnership with national and international institutions
- 5b. Establishment of agreements with financial institutions to grow the endowment and to increase multi-year support for programs
- 5c. Foster financial institutions that will support productive initiatives on the community level (e.g., credit cooperatives)
- 5d. Foster institutions and the practice of philanthropy in Mozambique (e.g., trust funds)

The outcome of the strategic planning workshop was a draft proposal for a five-year Strategic Plan of the FDC, which contains its overall objectives, its general strategic program objectives, its five specific program objectives for 1998-2002, and the activities to be conducted under each of those five areas. This proposal is given below:

Outcomes of Strategic Planning Workshop

Overall objective of the FDC

To contribute to the eradication of poverty and to foster self-confidence, solidarity, and social justice in Mozambique.

Strategic program objectives for the FDC

- Foster the capacity of Mozambican families and individuals to improve their living conditions and develop their communities
- Promote the growth and capacity building of NGOs and other organizations from civil society to intervene in community development and assure popular participation in their activities
- Foster synergies and mobilize resources from civil society, the private sector, the government, and donors for sustainable community development

Specific program objectives for the FDC for 1998-2002

Social development

- Foster the accomplishment of actions that improve social conditions
- Foster the dissemination of sustainable community development experiences (social and economic)

Activities in the area of social development

- Financing the investment in social and community infrastructure
- Promotion of the role of women in Mozambican society, (principally) through girls education
- Promotion of activities concerned with literacy, education, health, non-formal education, and civic education
- Promotion of the exchange of experiences between agents of community development and the communities

Economic development

- Foster the increase of income for small producers, families, and Mozambican communities

Activities in the area of economic development:

- Financing the productive initiatives of communities
- Financing credit programs for economic initiatives (on the small scale)
- Promotion of access and financing for technical assistance about productive activities for individuals, community groups, and NGOs
- Facilitation of the access of credit and markets for individuals, families, and community groups

Institutional development

- Improve the organizational, technical, and financial capacity of NGOs and CBOs [community-based organizations] to stimulate sustainable community development
- Increase the number and the quality of partnerships between NGOs, CBOs and other agents of community development

Activities in the area of institutional development

- Financing for the institutional capacity building of partner NGOs and CBOs
- Promotion of the rise of new associations, NGOs, and CBOs
- Facilitation of NGO and CBO access to financial resources
- Facilitation of access to financing and technical assistance for NGOs and CBOs
- Promotion of the exchange of experiences and discussion between NGOs, CBOs, communities, and other development agents (e.g. civil society, the government, private sector and donors)

Policies and strategies for development

- Influence the government, the private sector, donors, and other development agents to establish policies and programs favorable to NGOs, CBOs and to community development
- Influence the government and donors to establish a legal and institutional framework favorable to investment in community development.

Activities in the area of policies and strategies for development

- Organization, promotion, and participation in meetings, colloquia, roundtables, conferences, and work groups with diverse partners
- Financing of research programs and activist groups working in favor of community development
- Advocacy and lobbying on behalf of community interests in national and international forums
- Transmit the voice of communities in front of civil society, NGOs, the government, and donors
- Promotion of financial and programmatic policies and strategies that stimulate community development
- Promotion of the establishment of networks of lending services and of financial institutions accessible to urban and rural communities

Mobilization of support for community development

- Foster the creation of the necessary institutions to finance social and economic community initiatives and for an environment favorable to philanthropy in Mozambique
- Establish in the FDC a self-financing and sustainable capacity to co-finance initiatives supporting community development

Activities in the area of (mobilization of support) for community development

- Co-financing initiatives of community development in partnership with national and international institutions
- Establishment of agreements with financial institutions to make possible the growth of the endowment of the FDC and increase the multi-year financing of its programs
- Promotion of financial institutions with the vocation to support productive activities at the community level (credit cooperatives, etc.)
- Promotion of institutions and the practice of philanthropy in Mozambique (trust funds, etc.)

Example 2

A Financial Planning Package

Philippine Business for Social Progress

Philippine Business for Social Progress (PBSP), being an older and well-established foundation has a highly developed and systematic procedure for budget planning which is done annually for the proceeding year. They also prepare a strategic plan every five years with an accompanying five-year budget for the organization's

operations. This budget is flexible and refined each year into annual budgets, and further into semi-annual and quarterly budgets.¹³

Annual Budgeting and Planning Process

Every year, PBSP carries out a budgeting and planning process that involves the staff, the Board and its partners. The process takes two to three months. The process starts at the senior staff level with a review of past performance in terms of revenue and spending figures. The staff also gets a sense of the Board's reading of the environment that will impact on the plans and budgets. Reasonable budgeting parameters are defined; for example, a 15 to 20% cap on operating expenses as a percentage of total revenues, and 75 to 80% of total expenditures going to program assistance. These are communicated to all the units for consideration in their planning and budgeting workshops.

As the units go into the budget process—inputting details, making specific projections—they also include the inputs of NGO partners and donors taken from previously held consultations. All the plans are consolidated into a master plan. All budgets, meanwhile, are submitted to the Finance Unit for consolidation.

Next, PBSP's Directors deliberate on the first draft of the budget and work with each unit on revisions. With these revisions, the staff Finance Officer prepares a second draft for senior staffs' approval and endorsement by the regional Boards.

Then, with inputs and approval of the regional Boards, the plans and budget are presented to the national Board for final approval. These Boards, at their levels, monitor program and budget performance (monthly for the regions and quarterly for the national Board). Comparative figures from previous years are referred to.

These annual planning exercises follow the directions set by the Five-Year Plan determined by the Board to chart PBSP's major development thrust for this period. The Five Year Plan involves a strategic planning process undertaken by the Board with the staff and is reviewed midterm to make refinements in the strategy. The Five Year Plan is evaluated before its closing. Key learning points are identified; these provide input to the next five-year period.

In order to formulate its workplan and budget for its fiscal year 1997-1998, the Executive Director of PBSP circulated to the Management Team a "Planning and Budgeting Parameters/Framework and Guidelines in the Preparation and Submission of FY 1997-98 Work Plans and Budget Proposals." At the base of the process is the Foundation's financial strategy, which generally aims to sustain its development work and operations within the next five years. Specifically, it aimed to meet the following objectives:

- To maximize efficiency of current revenue generation sources and to generate at least P1,015.54 million in gross revenues within five years
- To develop new program and services that will augment current sources of revenues by at least P 20 million per annum
- To maintain a cost effective operations by maintaining a ratio of 20% operating cost to total revenues

The covering memo accompanying the PBSP budget planning contains five pages of instructions and encloses all the budget forms (projected sources and budgeted expenditures) on a diskette, with instructions to guide the team members in preparing their budget estimates. Also attached is a timetable to chart the process, which takes approximately four months to complete. This timetable lays out when each step of the process should be completed. It also assigns the responsible party for each step of the process. The timetable is a useful tool in guiding the budget planning process:

**Philippine Business for Social Progress Planning and Budgeting FY 1997-1998
TIME TABLE**

DEADLINE	RESPONSIBLE UNIT	TASK
June 23-July 4	Individual & Finance	Preparation of planning and budgeting parameters and guidelines
July 8	4 individuals	Review and approval of planning and budgeting parameters and guidelines
July 9	Individual & Finance	Issuance of planning and budgeting parameters to Units/Offices
July 15-16	Individual	Presentation and discussion during guidelines meeting
July 18	Human Resource Development & Finance	Issuance of projected Personnel costs, Unit's annualized and three-year operating expenses
July 17-Aug. 11	All Units/Offices	Planning and budgeting activities
Aug. 12-26	All Units/Offices	Submission of workplan and budget proposals to Group Director for review and approval, consolidation
Aug. 27-Sept. 3	All Units/Office and all Directors	Submission of unit and consolidated group workplan and budget approved by Group Director
Sept. 4-5	Directors, Administrative Director, Exec. Director	Directors' meeting
Sept. 8-15	Individual, Finance, and Executive Office	Submission of consolidated/master budget group and overall), 1st cut
Sept. 16-Oct. 7	Managers with 3 individuals	Budget hearing (work plans, budget, plans)
Oct. 8-13	FMSG/Executive Office directors	Consolidation for institutional work plan and budget (Group and overall), 2nd cut
Oct. 14-15	FMSG/Executive Office directors	Packaging for work plan and budget
Oct. 16	Regional Offices	Presentation to Regional Board
Oct. 29	Associate Director	Presentation to Board for approval

Another form in PBSP's planning and budget packet is the Schedule of Projected Revenues/Sources of Funds—Membership contributions (MC) and grants and other contributions (GOC). This is one of the forms that is sent to the Management Team members on diskette for their increased ease in filling it out. This form records the projects covered through membership contribution and grants and other contributions and how much of the funds are restricted or unrestricted.

PBSP Schedule of Projected Revenues/Sources of Funds

Membership contributions (MC) and grants and other contributions (GOC)

Key result area	_____
Project name	_____
Name of member	_____
Name of donor	_____
Membership contributions (MC)	_____
Grants and other contributions (GOC)	_____
	Restricted _____
	Unrestricted _____
	Total _____

[The form asks for a list of all sure and unsure sources of funding]

FY97-98 Projection _____

FY 1996-97 Estimate _____

FY 1995-96 Actual _____

Example 3

Financial Guidelines and Procedures for Grantees

Esquel Ecuador Foundation

The Esquel Ecuador Foundation (FEE) was established in 1990 as a grantmaking foundation. The following section outlines the financial management policies relating to grants administered by grantees. Just as Esquel is responsible for reporting to their donors, they have developed formal guidelines that their grantees can follow so that spending can be monitored effectively. The grant agreement signed between FEE and its grantee sets out its strict financial and narrative reporting requirements and disbursement schedules for grant funds.¹⁴

Financial Controls

Esquel Ecuador Foundation has developed "Guidelines for the Control of Financing of Community Projects, Institutional Projects, Productive Projects, Events and Publications, and the Production of Financial Reports." The purpose of the document is to establish norms and procedures for the financial control of programs, projects, and events and publications that are executed by FEE's counterparts with financial and technical assistance from the foundation.

Having this document outlining expectations on financial reporting requirements is useful in guiding the counterpart on financial procedures and reduces the risk of misreporting or misuse of funds during the grant period:

General. With external financing the Esquel Foundation will develop, through other NGOs, private institutions, and popular organizations, social development programs, productive projects, and training events.

Esquel must report to the external donors the disbursements made, justification of expenditures, and activities realized during the development of its programs, projects, events, etc. Esquel's counterpart NGOs, private institutions, and popular organizations must report to Esquel on the use of resources and completed activities using financial and technical reports. The financing of programs, projects, events, and publications, will be subject to the annual program which must be approved by the Foundation's Board of Directors.

The first payment. For the first payment the counterpart should present the following documentation to the Administrative and Financial Department of Esquel: the agreement or contract signed by Esquel and the counterpart; consolidated budget; a chronogram of disbursements that constitutes the periodic financial planning; bill of exchange or other type of guarantee to the value of the first disbursement.; names and positions of the persons whose signatures will be on the relevant checks; and name of the bank and number of the current account in which Esquel will deposit the payment.

Second and further payments. The request for disbursement should be accompanied by the technical and financial reports for the previous payment.

Audit control

Income: The received payments should be managed through a current account in the name of the counterpart and the checks should be signed with the signatures of the functionaries designated by the counterpart.

Expenditure: The counterpart should establish the pertinent procedures for the control of expenditures, adjusting to the Universal Principals of Accounting, tax regimes and other pertinent legal norms. Checks should be signed to the order of the direct beneficiary.

Payments that need to be carried out in the field, should be handled through checks signed to the order of the person responsible for the management of the Revolving Fund. Checks should not be made out to the carrier. The supporting documents needed for expenditures include: receipts, bills, and invoices...Expenditures should be ordered chronologically and sequentially so that they match the dates and activities of each project. A copy of the proofs of expenditure and their original justification should remain in the custody of the legal representative of the counterpart, and made available to Esquel when so required. The expenditures should be classified in five groups in relation to the budget: administrative costs; technical costs; costs of training and technical assistance; fixed costs; variable costs; and unforeseen costs.

Petty Cash should be managed by the counterpart and by one person, to be used for small administrative costs. Checks should be made out to the person who manages this.

Revolving Fund will be created according to the specific needs of the project and the decision of the legal representative. The counterpart will give corresponding instructions for the control and managing of this fund.

Budgetary Control. The counterpart is authorized to transfer budget amounts between different parts of one item or between items, except for administrative expenses, by up to 10% of the designated value. To transfer between parts and items of amounts above 10%, the Counterpart should present Esquel with a proposal for the reprogrammed budget supported by a Technical Report. If the proposal is accepted, the Counterpart can proceed, conforming to the corresponding authorization. Changes above 10% that have not been previously authorized by Esquel will not be accepted.

Funds on Earned Interest. Any interest generated by unused funds should be reported to Esquel by the Counterpart and cannot be used for any purpose without Esquel's previous written authorization.

Financial Report of the Counterpart. The financial reports that the Counterpart should elaborate for each Agreement or Contract, etc. are the following:

Report of expenditures: A detailed chronological and sequential report of each expenditure whose value should correspond to the items with monthly subtotals and periodic totals.

Budgetary reporting: A summary of the execution of the budget of the agreement, project, etc. relating to the approved budget, received income, expenditures made, etc. These documents should be written by the accountant and certified by the legal representative of the Counterpart. These financial reports should be sent with the Technical Report by express mail to Esquel.

Supervision and control. Esquel's Financial and Administrative Department will supervise the economic and financial management of the programs, projects, training events and others and, additionally offer technical assistance in administrative, financial and audit aspects. If the counterpart's financial reporting is not satisfactory, Esquel will suspend further payments until any unsatisfactory areas are clarified. If this is not done, Esquel reserves the right to cease payment and take legal action. In order to be able to proceed to the Closing Act, the parts will observe the following steps: financial and technical reports that satisfy Esquel in terms of the use of received payments; total information of the contributions made by the Counterpart, according to the respective agreement or contract; determination of the destination, use, beneficiaries, controls, and goods acquired for the execution of the program, project or event.

These are terms of agreement that Esquel expects from its grantees. Because the criteria used by Esquel to approve and finance projects are generally stricter than those used by other foundations or NGOs in Ecuador, they believe it is essential to provide technical and administrative assistance to grant recipients in order to meet these criteria. The terms, for example, specifically state that "any interest generated by unused funds should be reported to Esquel" and the reporting requirements for grants.

Esquel holds their grantees to these high standards to ensure transparency and accountability, as well as to build their reporting capacities. Under the section of Supervision and control, it is clearly stated that Esquel's Financial and Administrative Department "offers technical assistance in administrative, financial and auditory aspects" for their grantees who do not have systems in place to meet these standards. Esquel's bylaws further reflect the foundation's overall objective to "provide advice and technical assistance to social organizations and any other private or public entities that require it, with the expectation that such technology transfer will be assimilated in a critical manner."

References

¹³ Tan, Victor E. and Maurino P. Bolante. *Philippine Business for Social Progress: A Case Study*, The Synergos Institute, New York, 1997.

¹⁴ Adoum, Alejandra and Angela Venza. *The Esquel Ecuador Foundation: A Case Study*. New York: The Synergos Institute, 1997.