

DEVELOPING A FINANCE STRATEGY

Introduction

A Finance Strategy is integral to an organisation's strategic plan. It sets out how the organisation plans to finance its overall operations to meet its objectives now and in the future.

A financing strategy summarises targets, and the actions to be taken over a three to five-year period to achieve the targets. It also clearly states key policies which will guide those actions.

A suggested structure and contents for a financing strategy are outlined below.

1. Where are we now?

This section summarises where the organisation is at the start of the strategy. This includes an assessment of the key risks facing the NGO and the opportunities and resources it has available.

2. Where would we like to be?

This section summarises key financial targets for three to five years' time, and is informed by the risks and opportunities identified in the first section. It will include as a minimum:

- The desired funding mix – the balance and sources of restricted and unrestricted funds.
- Donor dependency – linked to the funding mix, this is the realistic and appropriate level of funding to accept from donor agencies (expressed as a percentage of overall income).
- Level of general reserves – usually expressed as the number of days that the **organisation could continue without external funding.**

3. How do we get there?

This is the 'meat' of the financing strategy. It describes what actions you will take each year to finance the strategic plan and achieve the financial targets identified in the second section.

This might include sections on:

- how to increase the mix and level of unrestricted funds
- how to finance core costs
- how to build up reserves
- how to replace and maintain fixed assets
- how to apply funds to achieve maximum benefit

For example, actions to increase the percentage of unrestricted income might include:

- Increasing or introducing fees for users of services to recover some or all of the costs of providing the service;
- Introducing income-generating activities;
- Making use of under-utilised resources (e.g. renting out office space, vehicles);
- Increasing the priority given to fundraising for unrestricted funds.

4. Key policies

This section will include policies that guide the financing strategy. The examples given are for guidance only and may not be appropriate or detailed enough for your organisation.

Reserves policy – what level of reserves you aim to build up, and how surpluses will be handled.

- **Example:** It is our policy to maintain general reserves equivalent to 6 months of operating expenditure. This policy is reviewed by the Board every three years. General fund surpluses in a given year will be added to this reserve. If the reserve level exceeds the policy level, we will spend it on behalf of the beneficiaries in line with our strategy.

Core costs policy – what method will be used to recover programme support costs from projects and funders. It will also clarify the policy on subsidising ‘poorer’ projects and how that will be decided and managed.

- **Example:** It is our policy to apportion overhead costs to projects on a monthly basis, in proportion to the direct costs incurred by each project. Each project should generate enough income to cover both its direct and apportioned indirect costs, unless the Board authorises otherwise for particular cases.

Pricing and cost recovery policy – where charges are to be made to service users, this will explain the basis and formula used for the charging, and the pricing structure.

- **Example:** It is our policy to charge users of the clinic for consultation, drugs and lab tests. The basis for the charge is cost plus 10% to cover overhead. Patients unable to pay may apply to our 'Special Scheme' for assistance.

Ethical policy – this will explain who the NGO will or will not accept funds from and what funds may or may not be used for. This will be particularly relevant to NGOs involved in advocacy work.

- **Example:** It is our policy to consider the ethical nature of all funds offered to us before accepting. For example, we will not accept funds derived from any illegal source, or from corporates engaged in arms dealing or child labour. We will not accept funds that create a conflict of