

Strength to Strength

Capacity-building newsletter for MRDF partners



Methodist Relief & Development Fund

Welcome

Welcome to this issue of **Strength to Strength** from MRDF. We hope you'll find ideas in here to help you build up and strengthen your organisation's work.

Money is the lifeblood of any NGO and securing it often takes up a great deal of time and worry for staff at different levels. The importance of good financial practice and accountability cannot be underestimated, particularly when it comes to managing grants from external donors and attracting new funds. Therefore, this issue of **Strength to Strength** focuses on finance. It also contains some practical guidance about running successful micro-credit projects on pages 4-6.

Many MRDF partners have already used these pages to share their ideas and strengths, which we're sure will help and inspire other readers. Thank you. If you have any comments about this issue or suggestions of websites, training courses and resources to include in future issues, please contact S2S@methodistchurch.org.uk.

Financial Management

The primary purpose of good financial management is to use information to help your organisation to achieve its objectives. It should not be solely the responsibility of the finance department or any one individual, but is a task for the whole organisation. This guide outlines how to take proper care of your funds.

It is impossible to find a model that suits every organisation. However, most organisations will have some kind of structure as set out below:

- **A governing body (Board of Management)**
Responsible for the overall management of the organisation and for setting clear objectives and policies. The Board will usually approve the organisational budget, monitor income against expenditure and ensure that objectives are being met.
- **A Treasurer** is a member of the governing body, with responsibility for providing financial advice to the Board and ensuring that the organisation is financially sustainable. In smaller organisations, the Treasurer may be involved in day-to-day accounting work.
- Depending on the size of the organisation, there may also be a **Finance Sub-Committee** which may deal with the planning and monitoring of the budget and financial reports, ensuring that financial controls are adequate and looking at the auditor's recommendations. If there is no such committee, then the Board should assume these responsibilities.
- **The staff management group** should share responsibility with the Board to ensure that appropriate financial management systems are in place and that these are monitored regularly. Finance staff should provide the day-to-day operational service and advise on the organisation's financial strategy and all staff and volunteers should be encouraged to work within the prescribed guidelines.

Sources for this article:

- Mango (a UK-based NGO specialising in advice to local NGOs on financial management) – www.mango.org.uk see the **Training Courses** and **Websites** recommendations on page 8.
- BOND (British Overseas NGOs for Development, a network of almost 300 UK-based NGOs working in international development) – www.bond.org.uk

How healthy is the financial management of your NGO?

Discuss the statements below with the relevant staff members and use the following to score your answers:

Always true (100% of the time)	Score 3
Mostly true (more than 75% of the time)	Score 2
Sometimes true (between 25% and 75% of the time)	Score 1
Never true (less than 25% of the time)	Score 0

Record keeping:	Scores
i. The date, description and amount of every transaction is recorded in a cashbook and this is updated regularly.	
ii. The cashbook is checked against your bank statements on a monthly basis to verify income against expenditure.	
iii. Supporting documents are available for all transactions (both income and expenditure) for the current financial year and these are easily accessible.	
iv. Budget codes are used to separate financial transactions for different expenditures.	

Internal controls:	Scores
i. Minimal cash is kept in the office and this is kept in a secure place.	
ii. No blank cheques are signed and left in the office for emergency use.	
iii. There is a written policy showing which members of staff can authorise expenditure and no-one (not even the Director or Board members) is allowed to sign for their own expenses.	
iv. Staff salaries are paid on a regular basis and these are checked by a senior manager or trustee every month and reviewed regularly.	
v. An audit is undertaken every year by a qualified external auditor.	

Budgeting:	Scores
i. An annual organisational budget is approved by the governing body. This is based on the current organisational objectives and is regularly reviewed.	
ii. All organisational financial policies and procedures are documented and kept in an accessible place.	
iii. All project budgets are prepared before the project starts and are approved by the Board of Trustees.	
iv. Finance staff and relevant project staff meet regularly to discuss project expenditure against the project budget. Project managers know how much money they have for each budget line.	
v. Any changes to the use of funds within an agreed budget or movement of budget lines are agreed in advance with the relevant donor.	

Reporting:	Scores
i. A report is prepared to each donor for every relevant project and it is clear which donor is funding which components of which project.	
ii. All reports are submitted on time and in the correct format required by the donor, unless prior agreement has been sought from the donor.	
iii. Project staff are involved in the compilation of the reports (in liaison with Finance staff and Managers) and understand the reporting requirements for their projects.	
iv. Actual expenditure on each budget line is kept to within 10% of the agreed budget.	

Personnel:	Scores
i. There are Board members with the skills to oversee all financial activities.	
ii. The Finance staff have the relevant skills/qualifications and access to training in order for them to carry out their duties adequately.	
iii. Managers and other staff have the financial skills needed to implement controls and to manage budgets.	

Interpreting your scores:

If you score over 42, well done! Your financial management is in good shape and the risk of not being able to carry out your work due to financial problems is low. However, do not be complacent as every NGO should aim for a full score of 3 for each question, so you may wish to work on those areas in which you score lower than this.

If you score between 21 and 42, your financial management is not too bad, but there is definite room for improvement in the areas in which you have scored low. Managers should look carefully at the low scoring areas with some urgency and try to address these in order to prevent financial problems occurring.

If your score below 21, you have some serious problems and there is a high risk that you will face financial problems in future: (e.g. funds may be misused, donors may withdraw support or you may not have enough money to pay salaries). Management and Board should meet urgently to discuss how the situation can be improved and you should consider calling in assistance.

Building blocks for good financial management

1. Record keeping – The purpose of financial record keeping is to log details of all transactions that have taken place. Records may be kept either manually or on a computer. All records should be kept in a secure place and updated on a regular basis. This cash book is a list of how much you have spent, on what and when; it is the cornerstone of accountability and is a basic minimum requirement for all NGOs.

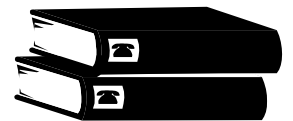


2. Internal controls - These are essential for ensuring that money is not misused. The controls that you have in place will be dependent upon the size of your organisation. However, these are the basics:

- do not keep lots of cash in the office,
- have an organisational bank account,
- ensure that all expenditure is properly authorised by the relevant people,
- monitor expenditure against budgets regularly,
- have properly trained finance staff,
- carry out an annual external audit,
- carry out monthly bank reconciliations (i.e. checking your cash book against your bank statements).

3. Budgeting – You need to have accurate, realistic budgets for all of your activities in order to predict how much money you will need to complete the work. The first step in preparing a budget is to identify exactly what you hope to do and how you plan to achieve it. List your activities, plan the costs and how much income they will generate.

4. Reporting – Financial reports are created by adding together similar transactions (e.g. transport costs). These reports will summarise your income and expenditure over a certain period of time and it is normal practice to separate costs using different budgetary codes (e.g. grants from different donors for the same project can be coded so that a financial report for each donor can be easily produced).



Micro-Credit

Micro-credit schemes, if well managed and successful, can provide an accessible source of capital at the community level for investment in small businesses, enabling members to build their own livelihoods and to become self-sufficient. Providing people with the opportunity to stand on their own two feet and to take charge of their own development should be the central aim of any community development project.

Credit and savings projects need to be carefully managed, so as not to create dependency on the NGO, which will lead the project to collapse when the NGO leaves. Several MRDF partners have a wealth of experience in micro-credit, adapted to the countries and communities in which they work, which MRDF would like to share with you. If you are thinking of establishing or just strengthening an existing project, here are a few key points to remember:

“Standing on our own two feet”

We formed a group to help each other, to solve our own problems and stand on our own feet. We can each do more in a group than on your own. We can share ideas and support each other.

Kopila Nepal group member.

Ten top questions to ask before starting a micro-credit project:

1. Is this an especially needy area?
2. What other credit or lending facilities/institutions do people have access to already?
3. What groups or mechanisms already exist that could be utilised to manage the project?
4. Is there a strong social network?
5. Can the staff easily cover the geographical area and the number of groups for ongoing communications and monitoring purposes?
6. What access do people have to markets/transport to sell their good and maximise the use of the loan?
7. What kind of training can be provided?
8. What are the levels of literacy amongst group members?
9. Will you work with women's groups, men's groups or mixed groups?
10. What kinds of activities generate the most income?

▷ **Remember:** the community, not the NGO, should identify the need for micro-credit.

Group formation

If there are no groups already in place, it is advisable to establish groups. Group members can provide support to each other, share ideas and experiences and help to solve problems together. Here are some points to consider in forming groups:

1. What is the maximum number of persons per group? (10-15 is optimum)
2. Are there any criteria for membership?
3. What leadership positions are required? For example: Chair, Secretary, Treasurer.

▷ **Remember:** the group should be supported to establish their own rules and regulations (including any penalties for non-payments) and should outline clearly the roles and responsibilities of leaders and group members.

Tools to help you:

Individual Passbook - to note savings and repayments
Group Meeting book – to register attendance and meeting minutes (see picture 1)
Group Cash book – to record group funds used and for what purpose.
Group Savings book – to record total group savings, with dates and names
Group Loan book – to record who took a loan, when, what for, amount of interest, amounts repaid at each date and when the loan is totally repaid.
Resolution book – to record rules and decisions made by group
Bank account book – to verify deposits and withdrawals from group account.



Training courses to build the capacity of the groups:

1. Understanding what micro-credit and savings are and how they can be of benefit
2. Group dynamics, roles and responsibilities of leaders/members
3. Money literacy
4. Leadership skills
5. Basic business skills including: planning, budgeting, marketing, book keeping, understanding capital, profits and loss.
6. Credit utilization and management, and the importance of repaying loans
7. Banking procedures (including a visit to a bank)
8. New technical skills for income generating activities
9. Awareness raising on wider development issues (health, rights, nutrition, agriculture)
10. Self-assessment for groups to measure their own progress.

“The group as one human body”

If any part of the body has a problem, the whole body is affected. If a small area of the body feels a pain, the whole body feels sick. The group is like a human body with the Chairperson as the head, the Secretary as the senses, the Treasurer as the blood and the other members as the body parts. Therefore the whole group is affected if one individual member defaults on a loan. The body needs to plan well and work hard to generate income, and livelihoods will be improved.

ZEPF Ghana training on group dynamics

▷ **Remember:** Where possible, training should be done in a participatory and practical way. People always remember better when they have had a go at doing it themselves.

Decisions to be made by groups (with support of community workers):

1. How will leaders be elected, how long for and how they will be replaced if necessary?
2. Should a one-off joining or group fee be paid by members to cover the cost of pass books etc?
3. Are the loans for individuals or groups?
4. How will loan beneficiaries be prioritised; who will receive loans first?
5. What are the criteria for receiving a loan?
6. What will the maximum credit amount be?
7. What is the rate of repayment? (e.g. monthly for one year).
8. What is the interest rate payable? How will this be used? Interest should be kept low (e.g. between 5-15%)
9. How much should group members save at each meeting? Should everyone save the same amount?
10. How often should the group meet and what will happen at each meeting?

Building blocks for a good project:

1. Well trained and capable staff, who are patient, knowledgeable, cooperative, impartial and friendly (*see picture 2, staff helping with loan distribution*).
2. Good capacity building training for group members before loan distribution begins.
3. Regular, ongoing support and monitoring by staff.
4. Systematic documentation of observations and regular follow-up of problems.
5. A planned strategy for the development and empowerment of groups, within a specified time frame (e.g. three years) to become mature, self-managed groups.
6. Good and accurate record keeping by group leaders and staff.
7. Access to markets for selling products.
8. Commitment to 100% recovery of loans for wider group benefit.
9. Encouraging mutual support, experience and problem sharing amongst group members.
10. Baseline survey, or in-depth loan forms at the start of the project will help staff to measure the impact of the loans on the member's earnings, consumption and quality of family life.



Factors influencing the success of the project:

1. The social fabric of the group: will group members be encouraged to make timely repayments through group pressure? Will group members support each other in times of difficulty?
2. Number of literate or numerate persons in the group (at least 50% of leadership should be functionally literate)
3. Technical capability of the group and its leaders in record keeping, accountability etc
4. The technical capability of the staff in training up and handing over the responsibility of the project to the group leaders over the course of three years.

▷ **If there are not enough literate women:** some groups ask trusted, literate men to be honorary members, to take notes and record savings/repayments.

▷ **If some groups are stronger than others:** Why not consider an exchange between a group that is functioning especially well and one that is struggling, Members from well-established and mature groups could also be used as resource persons to encourage and support newer groups. Transport costs could be paid out of the interest accumulated.

Important points for monitoring of Micro-credit groups by Community Workers:

- Good social relations between Community Workers and group members are key.
- Group Records: do they add up? Are they correctly filled in and up to date?
- Group dynamics: is the group active? Are individual members enthusiastic about the project?
- Group activities: what has happened since your last visit? What is the group planning to do next?
- Group development: is the group improving? Are leaders able to take on new responsibilities? Have the groups opened bank accounts yet? Have the groups accessed any other loans of their own or have they accessed any resources from the government or other organisations independently?
- Provide advice or on the spot refresher training where necessary for group leaders.
- Listen to group members' feedback on difficulties faced and successes so far.
- Visit each group member's business and provide advice, encouragement and corrections for any miscalculations before it is too late.
- Mediate in any conflict situations between group members.
- Facilitate group problem solving through practical demonstration or advice.
- Follow up any late repayments and encourage those doing well.
- Allow time for experience sharing and general reviewing of activities.
- Feed back any new ideas or recommendations from members to the NGO Director.

Some groups use the following rules:

- Only allow loans to be used to strengthen existing income generation activities and not to be risked on new untested activities.
- Only allow members to invest in recurring costs (not capital costs). e.g. a woman who wants to strengthen her food-selling business can only use the loan to buy rice or meat (recurring costs), not pots and plates (capital costs).
- Only lend to members who have already saved 1/3 of what they want to borrow, e.g. to borrow 9,000 CFA Francs you must first save 3,000 CFA Francs with the group.
- Have a separate savings account that all group members contribute a small amount into each month. This is a non-refundable amount, which can be used by members in times of great need, by group agreement (e.g. personal disaster or illness). This prevents group members from using loans to meet emergency needs.
- Keep all their books and lockable box inside a large metal tin box, to keep all documents dry and secure.
- Repay loans to group bank account, not to NGO, so fund continues to be revolved amongst group members.
- Link together with other groups supported by NGO to create a stronger federation of groups. This can help to access loans from other sources or resources from Government.

Special thanks to: Association Pengdwendé (Burkina Faso), ADAC (Mali), AMAPEF (Mali), BISAP (Bangladesh), CWSDS (India), ESKS (Bangladesh), PRTC (Cameroon), RDS (India), VAD (Uganda), ZEPF (Ghana).



Your Questions

“When you have a micro-credit project with groups, but the amount is not enough for everyone, how do you decide which group members receive a loan first?”

Answers from Rural Development Society (RDS) in India, Youth Development Center (YDC) in Cameroon, and AMAPEF in Mali.

Many micro-credit groups carry out a needs assessment of group members before making loans. The key information that the groups look for is: a) why does the person need a loan? b) what will they do with the money? c) will they have the ability to repay the loan? In some groups, each member makes a written or verbal application to the group leaders. The leaders, together with a community worker who ensures an objective view, decide who the most deserving members of the group are.

RDS groups deliberately try to make loans to the poorest group members first. They use criteria to identify who is poorest, such as whether a person lives in a mud or brick house, whether the roof of their house is thatched or slate, whether they own animals or land or nothing.

In AMAPEF groups, loans are given to the group and community leaders last, only when everybody else has had a loan and repaid it. This ensures that these influential people put pressure on other group members to repay the money they have borrowed. YDC suggested that micro-credit groups could simply draw names at random to decide fairly which members should receive loans first.

Next issue’s question is: How can we motivate community-based volunteers? – please send us your answers and suggestions.

Fundraising



SURVIVE – MIVA (Missionary Vehicles Association) offers funding throughout the developing world exclusively for different modes of transport. It will fund bicycles, motorbikes, 4-wheel-drive ambulances, pickup trucks or outboard motors for boats. All grants are for new vehicles, but funding to cover insurance and maintenance costs is not available. In 2004, MIVA provided almost 500 vehicles, at a cost of more than £500,000.

Application advice: MIVA can accept applications for vehicle funding in Spanish, Catalan, Italian, Portuguese, French and English. Applicants should take care to explain why their work is hindered by a lack of transport and should make their objectives clear, realistic, specific, measurable and attainable within the life of the vehicle. MIVA is keen to fund vehicles for programmes that are planned in collaboration and consultation with local communities, so MRDF partners would be well advised to emphasise this aspect of the way that they work.

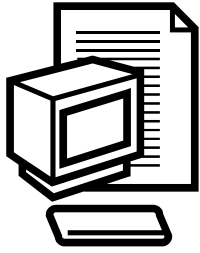
Contact:

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If your organisation can recommend any sources of funding that you have accessed, contact the S2S editor.

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Resources & Websites

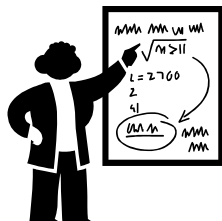
The resources and websites in this issue all focus on organizational finance or micro-credit.

Resources

- Organisational Finance book: John Cammack (2000). **Financial Management for Development: accounting and finance for non-specialists in development organisations**. Intrac, £13.95. (see www.intrac.org for more details and to buy)
- Organisational Finance book: John Cammack (2002). **Basic Accounting for Small Groups**. Oxfam, £13.95. (see <http://publications.oxfam.org.uk> for more details and to buy)
- Organisational Finance guidance sheet: BOND (2003) **Project Budgeting and Accounting** (downloadable for free from www.bond.org.uk/pubs/ipw.htm or MRDF can e-mail to you)
- Microfinance book: Thomas Fisher and M.S. Sriram (2002). **Beyond Micro-credit: Putting Development Back into Micro-finance**. Oxfam, £15.95. (see <http://publications.oxfam.org.uk> for details and to buy)
- Microfinance book: Malcolm Harper (2003). **Practical Microfinance: A training manual**. ITDG, £19.95 (see www.developmentbookshop.com/detail.aspx?ID=505 for more details and to buy)
- Microfinance handbook: CARE-Bangladesh (2000). **Operational Handbook on Self-Help Groups**. (MRDF can e-mail to you) – available in English or Bangla.

Websites

- Microfinance: CGAP, Building Financial Systems for the Poor: www.cgap.org (English only)
- Microfinance: The Development Gateway: <http://topics.developmentgateway.org/microfinance> (French, Spanish and English)



Training Courses

MANGO (UK) offers a range of financial courses for NGOs

Locations: South Africa, Burkina Faso, UK, Afghanistan, Thailand.

Costs: start at £100 for a one day course. A 5-day course called *FM1*:

Financial Management for NGOs – Getting the Basics Right costs £550 (excluding food and accommodation).

MRDF cannot fund any training courses, but please contact us if you plan to take a MANGO course. If there is sufficient interest from partners in the same region, it might be possible to negotiate a reduced rate. MANGO has advice about getting help with course fees:

www.mango.org.uk/training/faq.asp#FAQ11

Course descriptions: Each course is designed to meet the needs of different groups of NGO staff - some for financial staff, some for managers. For many of the courses, including *FM1*, previous financial management experience or financial training is not required.

The training manual for this course, *FM1*, is available for free on the MANGO website:

www.mango.org.uk/resources/manual.asp

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