

FOUR PILLARS OF FINANCIAL SUSTAINABILITY

Patricia León



Resources for Success Series
Volume 2

This series replaces *Resources for Success. A Manual for Conservation Organizations in Latin America and Caribbean* (1993), edited by Paquita Bath.

Copyright © 2001 by The Nature Conservancy, Arlington, Virginia, USA. All rights reserved.

Design/Layout: Justice Graphics
Production: International Publications Program, The Nature Conservancy,
International Headquarters, 4245 North Fairfax Drive, Arlington, VA
22203, USA. Fax: 703-841-4880; email: publications@tnc.org

This publication was made possible, in part, through support provided by the Office LAC/RSD/, Bureau for Latin America and the Caribbean, U.S. Agency for International Development, under terms of Grant No. LAG-A-00-95-00026-00. The opinions expressed herein are those of the authors and do not necessarily reflect the views of the U.S. Agency for International Development. This publication was also made possible, in part, thanks to the vision, trust, and support of the Summit Foundation.

For further information on Self-sufficiency projects or to provide feedback, please contact:

Angel Cárdenas
Self-sufficiency and Fund-raising Specialist
The Nature Conservancy
International Headquarters
4245 North Fairfax Drive
Arlington, VA 22203 USA

Phone: 703-841-4188
Fax: 703-841-4880
Email: acardenas@tnc.org

Contents

| | |
|---|----|
| Preface | 5 |
| Introduction | 7 |
| Basic Principles of Financial Sustainability | 8 |
| Chapter 1 Background Analysis | 9 |
| Chapter 2 What is the Financial Sustainability of an Organization | 11 |
| Chapter 3 Four Pillars of Financial Sustainability | 15 |
| I. Financial and Strategic Planning | 15 |
| II. Income Diversification | 16 |
| III. Sound Administration and Finance | 17 |
| IV. Own Income Generation | 18 |
| Chapter 4 Requirements to Attain Financial Sustainability | 21 |
| Chapter 5 Indicators of Financial Sustainability | 25 |
| Conclusions | 29 |

Foreword

Internationally, The Nature Conservancy assists countries, through local partnerships, to build the capability and commitment to conserve biological diversity and the natural systems necessary to sustain life. Since 1988, the Conservancy has worked to strengthen the institutional capacity of our in-country partner organizations to achieve our shared conservation goals.

When in 1993 The Nature Conservancy published its watershed institutional development manual, *Resources for Success*, to share the lessons learned from the first five years of its work with in-country partners, it proved to be a groundbreaking document for literally thousands of conservation and other non-profit organizations. Initially designed as an easy-to-use primer for strengthening Conservancy partners, *Resources* quickly became a classic reference book in countries where local organizations had little access to practical advice and best practices on issues of institutional development. Eight years after its introduction, *Resources for Success* continues to be a standard “go to” document for Conservancy staff and partners, as well as other conservation and organizational development practitioners, around the world.

Given the importance and impact of *Resources for Success*, the thought of improving upon it in some way was at first daunting. But The Nature Conservancy and its partners have learned many important new lessons in organizational development in the intervening years. The Conservancy now works with over 90 in-country partners in Latin America, the Caribbean, Asia, the Pacific, and Canada. These partners run the gamut from small, fledgling groups to powerful national organizations that have the capacity to provide assistance to others. As we have continued to work with partners, the Conservancy has also learned from them to

develop new and better approaches to building strong local organizations with sustainable, lasting capacity to pursue their missions.

We have collected these lessons, best practices, and field-tested tools in what will be a new *Resources for Success* series to replace our old standby. The new series is designed to be even easier to use than its predecessor, with practical, hands-on tips and approaches, clearer text, and more in-depth background information, offered in accessible booklets, each on a different topic of organizational strengthening. As such, the new series will both replace and go beyond what was offered in the earlier manual. We are proud to present a new volume of the series: *Four Pillars of Financial Sustainability*. Other volumes include such topics as:

Institutional Self-assessment

Strategic Financial Planning

Developing Membership Programs

Human Resource Management

Building Coalitions with Others

We think you will find the new *Resources for Success* series a fitting replacement for its predecessor, and hope it will encourage your organization to develop and share its own best practices.

Richard Devine
Director, International Partnership Program
The Nature Conservancy

Introduction

Achieving institutional financial sustainability is a goal that all non-profit organizations strive for. Theoretically, this financial sustainability will enable us to cover our administrative costs and to prioritize our activities so as to accomplish our missions, without undergoing interminable negotiations with donors who may or may not agree with our vision or with our cost percentages.

Many institutions seek donors that will allow them to set up a trust fund or income-generating opportunities that yield a profit margin above market conditions. The ingenuity and creativity of non-profit organizations has led to the development of many innovative mechanisms. This ability to dream and to persuade others to realize these dreams is one of this sector's principal strengths.

Nonetheless, the percentage of organizations that achieve financial sustainability remains very low. This is due not to a lack of creativity or commitment, but rather to the fact that many organizations continue to have a donor-dependent vision. If a trust fund is obtained, it is usually through an outside source. Moreover, attaining a profit margin that exceeds market conditions generally requires appealing to the organization's non-profit status in order to obtain special concessions. While it is important to consider this capacity for access to capital or preferential terms as a competitive advantage enjoyed by a non-profit organization, attaining financial sustainability through a single source or mechanism is a stroke of luck.

On the threshold of the twenty-first century, faced with an increasingly competitive market, a globalized economy, and a context in which

change is a constant rather than a variable, we must employ more sophisticated methods to attain financial sustainability. The survival of the sector depends on our ability to achieve this goal.

The corporate sector offers the most successful model to date, not to be copied, but to be adapted to our reality. The main difference between the two sectors is that the surplus generated in the corporate sector is used to create individual wealth. In the non-profit sector, this surplus is reinvested to accomplish a mission. After all, "not-for-profit" does not mean "for losses." If the corporate sector is efficient, in theory, non-profit organizations must be even more efficient to reach our objectives. We cannot allow ourselves the luxury of relying on a stroke of luck.

In the *Resources for Success Series*, we will present, among other topics, a comprehensive approach to achieving financial sustainability in an organization. This comprehensive approach covers aspects from the planning needed to achieve the goal, to strategies for achieving specific objectives such income-generation. Many of the proposed methods are adapted from the corporate sector, not only from the theoretical standpoint, but also through testing. These publications also illustrate the experiences of other organizations already embarked on this path.

Four Pillars of Financial Sustainability is the result of the collaboration of many authors, affiliated organizations, and institutions involved in the management of non-profit organizations.

We enthusiastically thank all the individuals and organizations who have collaborated, and continue to collaborate with us in this effort.

Basic Principles of Financial Sustainability

The second volume in the Series “Resources for Success” explores the basic principles of financial sustainability. These basic principles comprise various aspects including:

- the definition of financial sustainability from both an accounting and conceptual standpoint;
- the main pillars that support it; and
- institutional requirements for achieving this goal.

This volume is divided by chapters which discuss each subject from a conceptual perspective. Other volumes in this series will explore thematic areas more in depth and provide tools for implementing the proposed strategies.

At the end of each chapter, the reader will find reflection questions, which are assigned a value. These questions will help you to engage in a brief self-diagnostic of your organization's sustainability.

Contents

1. Background Analysis
2. Definition of Financial Sustainability
3. Four Pillars of Financial Sustainability
4. Requirements to Attain Financial Sustainability
5. Indicators of Financial Sustainability

Practical Applications

- Examine the factors necessary for an organization to attain financial sustainability.
- Evaluate how much your organization has progressed toward this goal.

Chapter 1

Background Analysis

One of the greatest challenges facing non-profit organizations developing countries¹ is that of obtaining critical funds to carry out the necessary activities to fulfill their mission. These challenges exist at the local or national, and the international level.

International Level

- More NGOs/more projects
- Shifting donor interests

Local Level

- Government regulations
- Economic conditions
- Role of civil society

International Level

From the international perspective, while the amount of available funds is higher, they are increasingly scarce due to the growing need and number of emerging organizations. To be more specific, it is not that the number of needs to be met worldwide has increased, but rather that we are currently more conscious of those needs, and more willing to do something to relieve or address them. Funds are also scarce because, while there has been a **quantitative** increase in funds, there has not been a proportionate **quantitative** increase in fund-

ing sources. The number of funding sources has not increased at the same rate as the needs, or as the organizations willing to implement solutions.

Even in cases where funds are available, donor interests determine how those funds are allocated. In most cases, priorities for fund allocation are set by donors who elect to support one cause over another, rather than by the leadership of local organizations. We must recall that no donor is under obligation to support a particular cause.

As a result, many organizations that are dependent on international funding sources are unable to maintain the continuity of their programs and activities since fund allocations constantly shift according to the interests of the donor. The problem is exacerbated by the fact that, in general, these international sources tend to cover overhead expenses at a very low rate, resulting in a project cost that exceeds the amount received. Organizations accept these conditions because their alternatives are often limited: they either take the money offered or they will be unable to implement the project. Failure to implement the project means failure to accomplish their mission.

What do organizations do to cover costs that exceeded the funds received? It is quite simple: 1) they increase the workload of existing staff in order to save on hiring new personnel; 2) they incur a deficit; and/or 3) they try to identify additional

¹ The concepts and guidelines were developed initially from our experience in Latin America and the Caribbean. However, as we expand our work throughout the world, we hope to gather lessons learned from the utilization of the materials within this manual.

funding sources to supplement the international funds received, usually after the fact.

Local Level

Generating revenues through local sources is also a treacherous path to take given that the tradition of charitable organizations in different regions, such as Latin America, is still incipient. Where it exists, it mostly focuses on religious or high profile causes. In most countries, you will find no more than six or seven organizations that are well known by the general public.

This limited charitable tradition can be attributed to several variables:

- lack of government incentives to encourage charitable contributions;
- in some cases non-profit organizations lack of trustworthiness;
- lack of government regulations to guarantee the transparency of non-profit organizations;
- a relatively small percentage of the population with sufficient means to have extra income to donate;
- economic fluctuations and distrust of long-term savings plans, which compel heads of families to prioritize the well-being of the nuclear family.

There are many other factors. But the roots of the limited tradition of philanthropic giving are deeper still; they are embedded in the rubble of decades, or rather centuries, of not exercising our civil rights.

There has been considerable progress over the past two decades in democracy-building and civil society throughout the world. One indicator of this incipient growth is the emergence of non-profit organizations which represent the people's will to bring about change for the good of society.

However, we must acknowledge that we have a long way to go. This movement is not entirely understood by governments and society in general. Governments regard non-profit organizations as adversarial to their policies or as competitors for international funds that otherwise would be channeled through them. The general public does not realize that it can express its views through such organizations and that joining them is a way of demonstrating their desire for change.

For these, and many other reasons, the emergence of non-profit organizations has not been accompanied by a strengthened tradition of charitable organizations, nor has it translated into government policies that appropriately regulate this sector and create incentives for it to expand.

In this context, organizations must use the most advanced methods of internal income-generation so as to achieve financial sustainability; this will enable them to make autonomous decisions that truly reflect local, rather than international, priorities. In this context, the need to achieve financial sustainability is both tangible and crucial.

Bab II

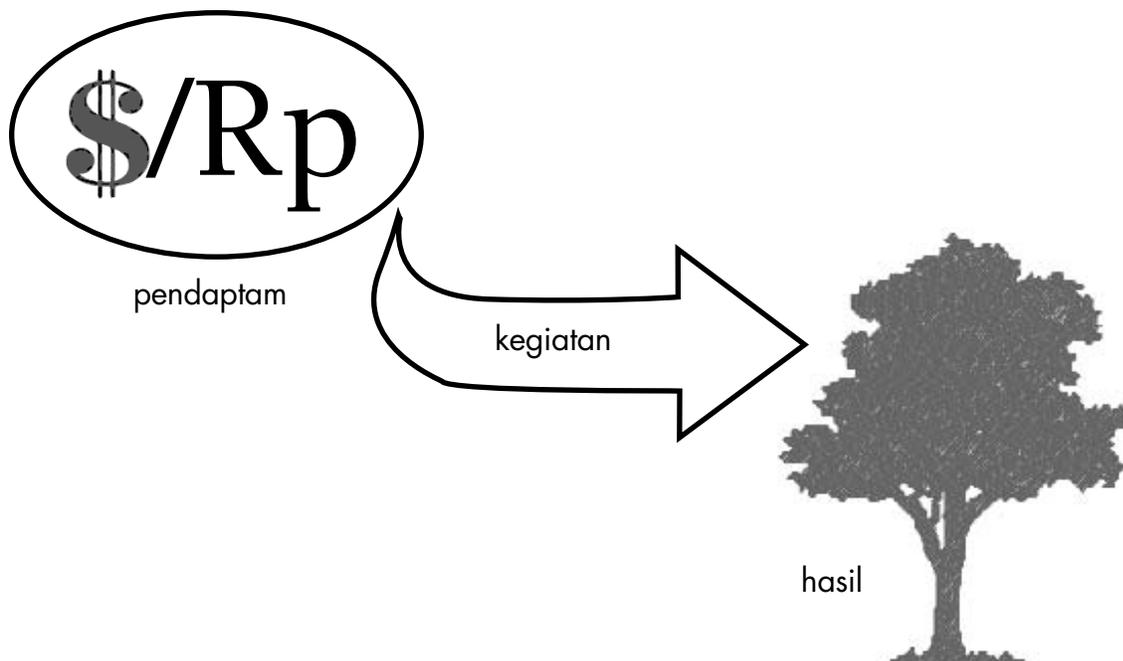
Definisi sumber dana yang lestari

Pada tahap ini, lembaga yang memiliki sumber dana yang lestari dapat didefinisikan sebagai lembaga yang punya kemampuan untuk mendapatkan dana (dalam bentuk grant atau bentuk lain) dalam rangka menjamin kelangsungan kegiatan produktifnya (dalam bentuk proyek misalnya) agar senantiasa berkembang dalam rangka menghasilkan sesuatu (bisa berupa pencapaian misi lembaga ataupun tujuan lembaga itu dibentuk). Dengan kata lain, tujuan pokoknya adalah terwujudnya hasil-hasil yang ingin diraih oleh lembaga tersebut. Dan alat untuk mencapai hasil tersebut adalah kemampuan mendapatkan dana, yang den-

gannya lembaga mampu mengimplementasikan proyek dan kegiatan-kegiatannya yang mengarahkan mereka pada pencapaian tujuan.

Prinsip akuntansi untuk sumber dana yang lestari Kalau kita berusaha mencari persamaan-persamaan istilah dalam keuangan lembaga nirlaba dengan istilah dalam akuntansi maka kita dapat mengatakan bahwa grants adalah pendapatan (revenue) dari lembaga. Serupa dengan pendapatan pada perusahaan. Dengan demikian, biaya-biaya untuk kegiatan / proyek merupakan pengurang dari pen-

Gambar 1: Penggalangan dana dan kegiatan



Accounting Principles of Financial Sustainability

- Gross earnings =** Grants and/or loans. In business terms, it is referred to as equity capital and includes periodic expenditures as well as the purchase of equipment and infrastructure which most donors allow organizations to retain ownership of beyond the life of the project.
- Direct Costs =** All expenses directly and exclusively related to the project. To identify these costs, ask yourself: if the project ends, would my organization necessarily spend money on this? Don't forget to include the cost of preparing project reports and financial statements.
- Overhead Costs =** The operational expenses of the organization which has been assigned the project. To identify these costs, simply figure out the expenses incurred by the organization in order to carry out core, administrative functions. In general these are expressed as a percentage of the organization's total budget.
- Balance =** This is the term that non-profit organizations use to describe the monetary results (positive or negative) for a specific time period. If the result is positive, it is called a surplus, if it is negative, a deficit. The equivalent terms in the corporate realm are profits and losses.

The following example will better illustrate the accounting principles of financial sustainability: The "Generous" Foundation approves a \$100,000 grant to the "Very Good" organization to reforest an area on the outskirts of the city with 1 million trees over a one year period. Overhead expenses for the project total 15%. In order to carry out this reforestation, the organization will contract a forester to supervise the technical aspects of the project and a volunteer coordinator to organize citizens who offer to help with the task. Saplings must also be purchased for planting and the weekly transportation of both volunteers and plants must be anticipated (this activity will take place every weekend throughout the year). Because this is a weekly activity, it is decided that it is cheaper to buy a pick-up truck than to rent transportation.

The organization's gross revenues are \$100,000. The direct costs are the salaries of the forester and the volunteer coordinator, the saplings to be planted, and the pick-up truck and gas to provide transportation. The indirect costs (overhead) are those that provide the necessary infrastructure for the task, such as offices, computers, project fundraising expenses, public relations if necessary, quality control, and so forth. Assuming that all overhead costs are included exactly in that 15% (\$15,000), then

this project's balance will show a surplus in the form of an asset: the pick-up truck. This asset becomes part of the organization's equity.

However, if all overhead costs were not covered, for example, a percentage of the salary of the accountant preparing financial reports, then the organization must tap other resources to cover these expenses. As a result, it will incur a deficit; in other words, the organization was unable to cover all the costs necessary to implement the project. Most organizations are unwilling to dispose of a property asset (the pick-up truck), or the law does not allow them to dispose of it.

Some accountants might ask why they didn't sell the pick-up truck in order to cover the deficit? Extremely complicated permits are generally required of non-profit organizations wishing to dispose of a property asset. The laws of each country must be reviewed to make sure that this is a realistic solution.

If we apply this example to the financial situation of non-profit organizations, we discover that a large percentage of them aspire to a "0" balance, or to augment their equity by acquiring assets. This means that no surplus or deficit remains at the end of a given period. The organization spent all rev-

venues (grants) on its productive processes (projects and overhead) in order to produce results.

The result described above is considered ideal by many organizations, in that it has efficiently invested all funds in order to achieve results. However, the organization is vulnerable to changes in its environment and lacks the flexibility to influence them. Non-profit organizations lacking their own internal resources are dependent on the good will of donors each time they wish to carry out an activity that falls outside the scope of approved projects. If the donor disagrees with the organization's needs or priorities, or if it simply lacks the capacity due to time or financial constraints, then the organization will be unable to effect the desired changes.

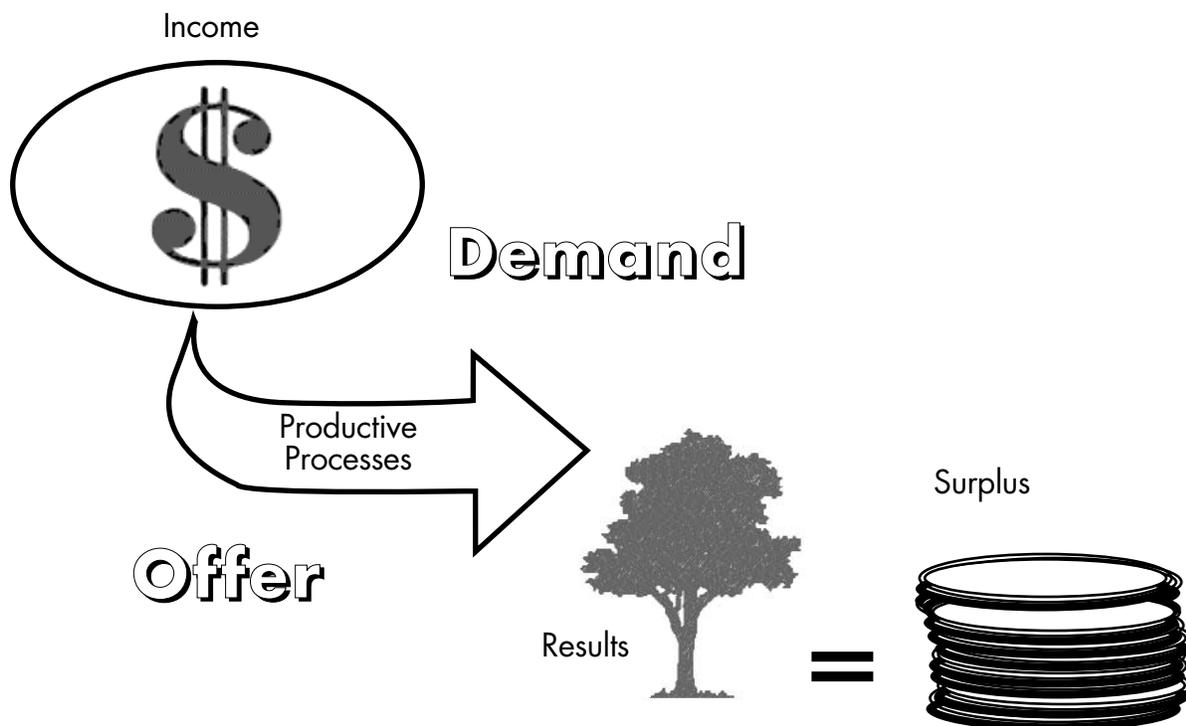
Let us imagine that an NGO receives a call today from its country's Ministry of Tourism, requesting a consultant for three months to amend the law governing national parks in order to include NGO economic programs. It is a fabulous opportunity for the NGO, which had been talking to the Ministry about this very thing for quite some time. The

problem is that the consulting services must begin the following week and the entire organization's staff time is occupied by ongoing projects. Where, in the space of one week, can the funds be found to contract someone to advise the Ministry?

The answer to this question usually involves some type of sacrifice: turn down the opportunity, re-assign professional staff working on other projects—to the detriment of those projects—, or simply work weekends and “as much as necessary” to the detriment of staff well-being. Our organizations lack a capacity for response because we lack financial capacity.

“Not-for-profit” Does Not Mean “For-Loss”!!

After contemplating the situations described above, we arrive at the conclusion that we must add a new component to our initial definition of financial sustainability: surplus generation. You might ask if you have read this correctly: generate a surplus or, in corporate terms, “a profit?” Is it not true that we consider ourselves lucky when we achieve a “0” balance and avert a deficit? Is it not true that if we



are non-profit organizations, we are not allowed to retain more money than we can spend? Well, it's not true. What non-profit organizations may **not** do is spend money for purposes unrelated to our mission, or distribute profits for personal gain.

Generating a surplus is not prohibited. What is more, surplus-generation is a need, not a luxury, and it is our obligation! A surplus is crucial to planning for the future as well as meeting current challenges. Without an income surplus, how can we respond to changes in our surroundings and opportunities that arise? How can we take precautions against risks and uncertainties that might arise in the future, such as political or economic crises?

For this reason we add a new component to our definition of financial **sustainability**. In our view, the financial **sustainability** of a non-profit organization is its capacity to obtain **revenues** in response to a demand, in order to sustain **productive** processes at a steady or growing rate to produce **results** and to obtain a **surplus**. It must be kept in mind that financial **sustainability** may be achieved at the project, program or organizational level.

Financial sustainability means ensuring the longevity of the organization. This financial sustainability must be defined in real terms; we therefore will adjust our accounting equation to reflect the desired result.

Total income - Total costs = Surplus

Questions to Ponder:

1. Do you know if your organization has a surplus, a deficit, or a "0" balance?
 2. If there is a surplus or deficit, do you know where it is coming from?
 3. Has financial sustainability been established as a goal? If so, has the financial goal been identified?
-

Four Pillars of Financial Sustainability

When The Nature Conservancy launched its Institutional Development Program in 1988, much emphasis was placed on income diversification and internal income generation. Over time, however, we have witnessed many cases of prominent organizations that successfully achieved both objectives but continued to experience financial difficulties. In the worst cases, they nearly had to shut down. Although it may seem obvious, we had to learn through experience that it was irrelevant whether we were good fundraisers or generated our own income if we lacked efficient procedures for administration and finances, and fiscal planning in conjunction with strategic planning. It can be compared to a table: it needs four legs in order to stand

sturdily. We have therefore termed these components as **fundamental pillars for the financial sustainability of and organization.**

1st Pillar: Financial and Strategic Planning

I have often asked organizations how much of their own income they need to generate. In a high percentage of cases, the response is “as much as possible, as soon as possible.” While we all want to generate a lot of income, it is imperative that we know the minimum we must raise to achieve the proposed objectives related to fulfilling our respective missions and covering administrative costs.



1. STRATEGIC AND FINANCIAL PLANNING
2. INCOME DIVERSIFICATION
3. SOUND ADMINISTRATION AND FINANCE
4. OWN INCOME GENERATION

If an organization is unclear about its goal, it might, for example, launch an income-generation project to raise \$50,000 annually without taking into account that it has a current deficit of \$500,000 which must be paid in the short-term. Unless it has other means of raising these funds, then \$50,000 will be insufficient. The organization will feel that it has not gotten anywhere or that it is working toward an unattainable goal.

As the organization grows and takes on an increasing number of activities, it runs the risk of focusing on day to day management issues and losing sight of long range objectives. Strategic planning is the mechanism to help clarify an organization's mission and objectives as well as prioritize the actions needed to accomplish them. Effective planning has become a prerequisite for accessing available international funds.

However, since it operates at the purely conceptual level, strategic planning has a weakness: it does not adequately take into account the resources an organization has available to implement the chosen strategies, or its capacity to obtain new resources. It is therefore important to engage in a parallel financial planning process that makes it possible to convert the actions described in the strategic plan into figures.

A financial plan of action basically consists of projected expenditures and the organization's potential to generate the income to cover those expenditures. Although it may appear that a financial plan is very similar to a budget, there are significant differences between the two. A financial plan is a dynamic document that changes frequently. The ultimate purpose of the financial plan is to determine if the organization is going to have sufficient resources available in the medium term to meet the objectives described in the strategic plan.

The financial plan operates on the basis of scenarios, ranging from the minimum feasible to the ideal. The minimum feasible scenario quantifies priorities that are indispensable to fulfilling the mission within a specific time frame, and whether the organization can cover its fixed or operational costs during that period. These indispensable priorities and fixed operational costs represent the minimum fundraising goal.

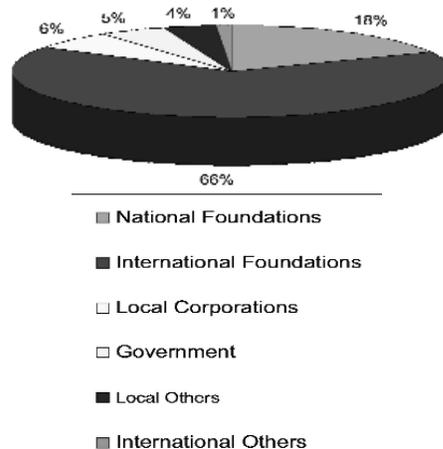
Questions to Ponder:

1. Does your organization have a strategic plan?
2. Have high, medium and low priorities been set as part of the strategic planning?
3. Do you know how much it will cost to implement the actions described in the strategic plan?

2nd Pillar: Income Diversification

The second pillar of financial sustainability is income diversification, referring not only to internal income generation, but also to the number of income sources that provide our main funding. Even if an organization has twenty donors, it will remain extremely vulnerable if a large portion of the budget depends on only one of these. Any change in this donor's decision can induce a major crisis. At least 60% of the organization's overall budget must come from five different sources.

Diversification of Sources of Funding



Questions to Ponder:

1. What is your organization's total budget?
2. How much of that budget corresponds to administrative costs?
3. Can you make a rough list of your organization's income sources this year, with approximate amounts?
4. Do you have a retrospective analysis of income sources dating back at least two years?
5. Do you have procedures for following up with donors?

3rd Pillar: Sound Administration and Finance

Knowing how to manage our resources is as essential to achieving financial sustainability as knowing how to generate income. Efficient procedures for administration and finances are governed by a series of institutional policies that help us make the most of our resources and ensure transparency in fiscal management. Moreover, these procedures must enable us to anticipate the organization's financial standing and, ultimately, make appropriate decisions in a timely manner. Efficient procedures also allow us to generate income through the financial management of available assets.

Accounting-administrative procedures must fit the organization's needs. Regardless of their scope and structure, these procedures must record the organization's transactions to enable us to visualize

the organization as a whole. In many organizations, accounting procedures are set up by project or by donor since this facilitates issuing donor reports that often require specific accounting categories and codes. Nonetheless, to find out the overall budget or calculate the total expenses in a particular category such as travel, accountants add up the figures from each project. This is an **extremely dangerous** habit, as it does not contain the adequate controls for regular, automatic review of the organization's financial standing. This type of accounting, known as project or donor-based, is highly susceptible to human error. All organizations must have cost center accounting that allows for double entry coding for donor reports.

Statements issued for decision-making purposes are just as important as accounting procedures. Below are the types of financial statements that the organization's management must review periodically.

| Financial Statement | Review | Comments |
|---------------------------------|---|--|
| 1. Balance sheet | Semi-annually | |
| 2. Income/Expenditure Statement | Monthly or every two months | |
| 3. Cash flow | Monthly | |
| 4. Audit reports | When conducted | Ideally at the end of each fiscal year. |
| 5. Financial statement entries | | With the balance sheet |
| 6. Inventory control | Semi-annually | |
| 7. Investments | Depending on the amount, significance, risk incurred | |
| 8. Financing | Depending on the amount, significance, risk incurred | |
| 9. Budget | Presented to the Board of Directors three months prior to the end of the fiscal year. | Approval minimum 30 days prior to the end of the fiscal year. |
| 10. Budget verification | Quarterly reviews, at minimum | Essential for a non-profit organization since it depends on contributions. If they fail to materialize, the budget could be seriously compromised. |

Other reports that the nonprofit organization should request from its accounting department are:

- Grant reports
- Trust fund (if one exists)
- Income-generation through business activities
- Financial reports to donors
- Project audits

Questions to Ponder:

1. What financial statements does your organization prepare?
2. How often is each one reviewed?
3. Are the financial statements easy to understand?
4. How many Board members are involved in fiscal oversight?
5. Does the Board have a committee for this purpose?

4th Pillar: Own Income Generation

Own income generation is one way for an organization to diversify its sources of revenue. In this category, however, we discuss all the ways in which an organization can generate unrestricted income: in other words, income that the organization, not the donor, decides how to spend. Principal ways an organization can generate its own revenues follow.

1. Contributions to a trust or endowment fund

The objective of a trust fund is for an institution to derive benefits from the interest generated by the capital. The capital remains untouched. Its value must be maintained and/or increased over time.

An organization can include under indirect costs (overhead) a percentage earmarked for an endowment or trust fund. If this is the case, the percentage constitutes a surplus. To do this, however, the organization must legally establish the endowment fund, and must include this investment under its indirect costs as a matter of institutional policy.

The legal establishment of an endowment fund usually consists of setting up a separate bank account—which the organization pledges not to spend. The purpose is to build up this account to the point that the interest accrued constitutes an income for the organization. In many cases, people—“trustees”—are named to ensure the public that this commitment is kept. Banks already have standard procedures for setting up these funds in many countries.

Establishing an institutional policy to include this investment under indirect costs means that the **same** percentage of these costs will be included in **every** proposal, so that all donors receive equal treatment. For example, if an organization's indirect costs are calculated at 15%, it can add on to these costs a proportionate amount to build the endowment fund; therefore, from the moment the Endowment Fund is established, the organization's indirect costs will be 16% instead of 15%.

Questions to Ponder:

1. Does your organization have a trust fund?
2. If so, have policies been established to maintain or increase its value over time?
3. If you do not have a trust fund, is it a projected goal?
4. Does your organization have any other asset, such as property, that is capable of generating revenues?

2. Fundraising for institution building or operations

This refers to requesting donations from those individuals, corporations, or agencies willing to make contributions in support of the institutional development of the organization. These donations may be given in the following ways:

- a. helping the organization to increase its income-generation capacity whether by hiring new staff, acquiring computer systems or the initial investment necessary to implement an income-generation project, etc.
- b. increasing equity, whether by building infrastructure or building up an endowment fund.
- c. contributing unrestricted funds (without conditions placed on their use) for a specific time period. (usually from one to three years). Such funds are usually provided to an organization when it starts up operations to allow it to achieve a degree of financial stability until such time as its project volume increases.

Unfortunately, very few donors offer this type of contribution.

Questions to Ponder:

1. Has your organization requested these types of funds?
2. What was the outcome?
3. Do you think other opportunities are available to raise these types of funds?

3. Income generation through public contributions

Some organizations turn to the public to solicit support for their mission. There are many different ways to approach the public, including:

- a. Offer membership in the organization.
- b. Organize events which people pay to attend such as parades, raffles or dinner parties.
- c. Solicit donations in public campaigns such as “telethons” or taking up national collections during a specific time frame (usually of short duration, such as one day).
- d. Solicit corporate contributions in exchange for tax deductions, image, group membership, or a combination.

- e. Exchange royalties or licensing (organization name or logo) to corporations in exchange for a fixed amount or a percentage of the sales of a specific product.

Questions to Ponder:

1. Has your organization undertaken any such initiatives? If so, list them.
2. Do you know if the initiative is making a profit? If so, how much does it contribute to the organization?
3. If it is not making a profit, do you know what its financial projections are? When will it reach the break-even point?
4. How much has the organization invested in order to launch this initiative?

4. Income generation through the sale of goods and/or services

Many institutions offer products or services as an income-generating strategy. This type of initiative exists in many forms. It can be as simple as the sale of promotional products (t-shirts, posters, or other products with the organization's logo), or as complex as offering professional consulting services in a particular field. The latter usually corresponds to an area in which the organization has technical expertise. Moreover, such goods and services can be offered in a variety of ways. A simple method is direct sales to friends and acquaintances. A more complicated method involves the mass distribution in commercial sales locales, and/or advertising in the press.

Questions to Ponder:

1. Has your organization undertaken any such initiatives? If so, list them.
2. Do you know if the initiative is making a profit? If so, how much does it contribute to the organization?
3. If it is not making a profit, do you know what the financial projections are? When will it reach the break-even point?
4. How much has the organization invested in order to launch this initiative?

5. Income generation through establishing businesses related to a specific mission

This is the most sophisticated and complex form of income-generation. It involves establishing for-profit

corporations in which the organization has full or part ownership. It usually occurs when a non-profit organization identifies a business opportunity and, at the same time, recognizes the existence of various factors conducive to creating a separate entity rather than managing the initiative at the program or project level. There are myriad potential factors, but they may include:

- a. The need to obtain capital by commercial means.
- b. The need to attract personnel from the private sector to direct the initiative, creating salaries and incentives that differ from the organization's.
- c. Safeguarding the organization's equity from the risks inherent to a business.
- d. The risk of diverting the organization's assets to activities that do not directly correspond to its mission.
- e. The need to safeguard the organization's image, etc.

Whatever the reason or reasons for choosing this route, it is an option that must be carefully weighed. Any entrepreneur will tell you that it is not easy to make a profit. It involves considerable effort and work, and in this case, companies compete directly in the marketplace. Moreover, there must be a clearly established policy regarding the allocation of profits corresponding to the organization. There should never be any doubt as to how these profits are used. A policy usually is established stipulating that all profits earmarked for the organization must be invested in it immediately!

Questions to Ponder:

1. Has your organization undertaken any such initiatives? If so, list them.
2. Do you know if the initiative is making a profit? If so, how much does it contribute to the organization?
3. If it is not making a profit, do you know what the financial projections are? When will it reach the break-even point?
4. How much has the organization invested in order to launch this initiative?
5. Are there partners to share the risk?
6. Is the initiative compatible with your organization's mission?

6. Income generation through financial management

This is an income-generation technique that can be implemented by all institutions, regardless of whether it generates a little, or a lot, of income. This category refers to the appropriate, strategic management of an organization's assets (assets may be bank accounts, property, etc.) in order to maximize their financial potential. For instance, property that is not being used can be rented, bank accounts can be transferred to interest-bearing accounts until the funds are needed, or unused assets which retain some market value can be sold.

However, non-profit organizations undertaking any of these strategies should review existing laws in each of their countries to verify that there are no legal barriers. For example, in Peru, foundations may not sell any asset without a special permit which takes a long time to obtain. Donor policies with respect to financial management is another area that must be researched. For example, the United States Agency for International Development (USAID) requires that any interest generated through fiscal management be entirely reinvested in the same.

Questions to Ponder:

1. Has your organization generated income through financial management? If yes, how much?
 2. If it has not generated income, do you know of any obstacle to your organization's using this strategy?
 3. Do you know if any donor opposes generating interest through financial management?
 4. Does your organization have financial management policies?
-

7. Income generation through corporate alliances

Cause-related marketing is the most common name for the alliances with corporations. These alliances can be defined as the commercial activities where non-profit institutions partner with corporations to market an image, product, or service with the purpose of obtaining a mutual benefit. In successful cause-related marketing the institution and the corporation get positive results. The corporation achieves a good public image, sells more products or services and the institution raises funds to carry

out its mission. Sometimes funds received are a percentage of sales; in other instances, they might be a specific amount; and other times the institution receives a combination of both.

Through this type of alliance non-profit institutions reduce the economic risks but its public image is at stake. If the corporation has a bad public reputation, it is almost certain that the public image of the institution will suffer a negative impact.

Questions to Ponder:

1. Is the organization in alliance with a corporation?
 2. Do you know if the institution is making a profit? If so, how much does it contribute to the organization?
 3. If it is not making a profit, do you know what the financial projections are?
 4. Do you know what the public image of the corporation is?
 5. How much has the organization invested in order to launch this initiative?
-

Chapter 4

Requirements to Attain Financial Sustainability

We have examined accounting principles, the importance of the concept of generating a surplus to achieve financial **sustainability**, and its fundamental pillars. However, a lot of effort and teamwork is required to reach this goal. It also requires an organization-wide change of mentality, since it has to do with generating an income surplus, which is antithetical to what is commonly regarded as effective methods of directing non-profit organizations. The six essential requirements for achieving financial **sustainability** in an organization are:

1. Long-term Commitment
2. Leadership
3. Investment of Time and Money
4. Business Plan
5. Effective Management Team
6. Team Work

investment of \$10,000 obtained through a grant. A 200% profit is anticipated. In other words, the organization will make a \$20,000 profit and recover its \$10,000 capital investment.

However, even if it achieves this result, it still needs \$20,000 to cover its budget. To simplify, let us say that the organization opts to reduce costs to avert a deficit and use the \$30,000 generated by the t-shirt sales. If all of these conditions are met, then there will be a “0” balance; in other words no deficit or surplus.

Unfortunately, despite having conducted a successful t-shirts sale, the objective of the organization was to generate revenues annually (not just for one year). Because the money earned was spent, the institution has no more funds to produce t-shirts to sell the following year. The organization

| Year | Investment | Cost | # Units | Sale Price | Gross Revenues | NGO Use |
|------|------------|------|---------|------------|----------------|---------|
| 1 | 10,000 | 1 | 10,000 | 3 | 30,000 | 30,000 |
| 2 | 0 | 1 | — | — | — | — |

Let us illustrate these requirements by giving an example:

The “Pura Vida” organization needs to raise \$50,000 annually to cover its administrative budget and avert a deficit. “Pura Vida” proposes to sell t-shirts as a means of achieving financial **sustainability**, using an initial

has not advanced significantly towards financial **sustainability**.

If “Pura Vida” decides to utilize only part of the income generated to cover its budget, and each year it will invest \$5,000 more than the previous year, how long will it take to reach its goal of generating \$50,000 annually? Let us suppose that the

organization continues to make a 200% profit each year, production and sales costs are \$1, the sale price is \$3, and all external variables remain constant (inflation, demand, costs, etc.).

| Year | Investment | Cost | # Units | Sale Price | Gross Revenues | NGO Use |
|------|------------|------|---------|------------|----------------|---------|
| 1 | 10,000 | 1 | 10,000 | 3 | 30,000 | 15,000 |
| 2 | 15,000 | 1 | 15,000 | 3 | 45,000 | 25,000 |
| 3 | 20,000 | 1 | 20,000 | 3 | 60,000 | 35,000 |
| 4 | 25,000 | 1 | 25,000 | 3 | 75,000 | 50,000 |

Under ideal circumstances, it took four years for the organization to generate \$50,000 on an annual basis. In the first year, the organization had a total income of \$30,000, given that the initial capital investment was a grant, all of this counts as profits. Therefore, it can use it all, save what it expects to reinvest the following year, in this case \$15,000 (\$10,000 + \$5,000 more each year). The equation is repeated successively until the fourth year, when the organization generates \$75,000 with an investment of \$25,000 (the difference is the projected goal of \$50,000). If all variables were to remain constant, the organization could go on generating \$50,000 indefinitely, using a \$25,000 investment for the production and marketing of t-shirts.

1. Long-term commitment

Just as no project of any magnitude is accomplished over night, it takes time to generate income. All of the successful enterprises that you see around you required a long-term commitment to achieve success. In the case of “Pura Vida,” it took four years to attain the projected goal. Meanwhile, the organization had to make sacrifices in order to resist the temptation to spend money it needed for operations, instead of investing it to produce more t-shirts.

Questions to Ponder:

1. Do you know if your organization has an immediate need (such as covering a deficit) to generate income?
2. Has your organization articulated a concrete financial goal?

2. Leadership

It is nearly impossible to achieve financial **sustainability** without the commitment of the organiza-

tion’s leadership and directors. The fundraising staff will become discouraged if the organization’s directors demand short-term results despite the fact that a long-term effort is required to achieve the desired goals. Likewise, in some instances, everyone (staff and management) must collaborate in order to achieve financial objectives. The leadership must set an example.

Questions to Ponder:

1. Who, among your organization’s leadership, is committed to this effort?
2. What is the nature of their commitment, moral support alone or active participation?

3. We must invest time and money to make money

It’s true! Resources are necessary to achieve financial **sustainability**. In our example, an initial investment of only \$10,000 was required, but we assumed that this amount would cover the costs of production, distribution, sales, monitoring, etc. It is usually more complicated than that. As with any project, there are direct and indirect costs. Moreover, there are fixed costs (those that remain constant over time) and variable costs (those directly related to production for sale, such as the t-shirts).

Income generation is not a part-time job. It is, rather, a full-time undertaking and sometimes a whole team of people is needed to cover innovative activities such as the t-shirts sales, as well as

traditional ones such as international fundraising. To raise funds from international foundations, for instance, a proposal must be written and sent by courier, there must be follow-up with the donor, preferably a visit, and, if the proposal is rejected, the process must start all over again until the goal is reached. All of this means investment costs!

In this example, we have invested the time of members of our team for proposal-writing, follow-up activities and cultivating the donor. Non-profit organizations must begin to consider staff time in monetary terms in order to plan realistically for its human resources. Don't forget the old saying, "time is money."

We have also observed the foundation example that we must invest cash in telephone calls, courier services, and even the visits. This "capital investment" is even greater when we launch a commercial venture, such as producing t-shirts for sale. In this case expenses that we must account for are: the time of the person in charge of producing and marketing the t-shirts, artistic designers, production and sales costs, advertising costs, distribution costs and, lastly, the cost of having capital invested in an operation when it could have been earning interest in the Bank — this is the cost of missed opportunities.

Questions to Ponder:

1. How much is your organization willing to invest in this type of initiative?
2. Does your organization have other funding sources?
3. Who will have to invest their time in order to move this initiative forward? Will only new staff be counted, or will some of the existing staff be involved?
4. How much time is the Executive Director and/or the Board willing to invest to oversee this initiative?

4. Business Planning

All income-generating initiatives must conduct a feasibility study. If the study indicates potential, then it should be expanded into a business plan. Many organizations believe that these procedures only apply to large-scale commercial endeavors.

However, it is also a necessary step for small projects. Moreover, this methodology can be applied to traditional forms of fundraising used by non-profit organizations, such as corporate or membership campaigns in addition to business endeavors.

A business plan enables an organization to identify essential factors for evaluating whether the effort involved in the initiative is worthwhile. For example, a feasibility study will help determine:

- A potential market for the good or service that is to be offered;
- Opportunities and threats in the environment, including the competition;
- Costs associated with the initiative; this will help to set a pricing policy and make financial projections so as to calculate potential profits and when we can expect them to materialize.
- Set market and financial goals in order to monitor progress in a timely fashion.

The necessary cost and effort to undertake this exercise will depend on the magnitude of the initiative. The organization staff can carry out the task if it is a small project. Methodologies are available to assist professionals who have not undertaken a study of this nature. The greater the investment and risk, the greater the imperative to invest in a thorough study with the help of professionals with expertise in this field. It is important to emphasize that, even though a consultant is hired to conduct the study, a team comprised of the organization's staff members must participate in the process. Otherwise, there is a risk of not fully understanding the conclusions, or lacking a feeling of ownership in the project. Usually this results in unused business plans on file.

All non-profit organizations must ensure that their scarce resources are utilized as efficiently as possible. Without a feasibility study or business plan, there is no way of anticipating what will happen with an endeavor and, once again, we rely on luck. The business plan does not guarantee success, but it can substantially increase the potential for success. Non-profit organizations must incorporate this methodology into the planning process for any income-generation project as a means of ensuring that they have made every effort to invest their money in a viable project.

Questions to Ponder:

1. If your organization has launched an income-generating initiative, did it conduct a feasibility study or draft a business plan before launching the project?
 2. If it did not conduct a feasibility study, did it at least research market potential or make financial projections?
 3. Does your organization have a person (paid staff or a Board member) who is familiar with business planning or has received some training in this area?
 4. If your institution is planning an income-generation initiative, is it considering carrying out these studies?
-

5. Effective management team

When an investor is considering whether to get involved in a business, the first things to be evaluated are four variables: sound product, market potential, promising financial outlook, and a competent management team. A business cannot function without a leader with the vision to implement the initiative. Even if you have the best business plan in the world, the context is constantly changing and a leader with vision and experience is needed to avoid obstacles along the way or recognize new opportunities.

If your organization is unwilling, or lacks the resources, to contract such a director and the team needed for a particular undertaking, then it should not launch the initiative. Executive Directors or Board members are sometimes willing to oversee an undertaking. This is a valuable contribution, but it should not be confused with the implementation process. A full-time person is needed; however, with active supervision, it might be possible for the person in charge to have a more limited profile.

Questions to Ponder:

1. Assuming your organization has an income-generation initiative, do you know who is in charge of it?
 2. What did the hiring process consist of? Was a profile developed of the ideal candidate? Was the job announcement widely disseminated?
 3. Do you know that person's experience in this area?
 4. Is the organization satisfied with the results produced to date? Is it reaching the goals set forth in the business plan?
-

6. Team work:

Don't forget that many of the plans that your organization makes to achieve SUSTAINABILITY involve personnel in other areas. It is essential to train and communicate with them. For example, an organization that sold products on-site to visitors had displayed the items in an attractive case in the reception area. However, the receptionist attending visitors did not know the prices nor the transactions involved to complete a sale. The result: many sales missed.

Another organization launched an ecotourism program for its members using a brochure featuring different destinations. Members had begun to call to ask about the program, but the switchboard operator was unfamiliar with it and connected the callers to the protected areas division since the organization had never offered trips. Unfortunately, the membership department had neglected to inform the protected areas division about the program, so the technicians told the callers that there must have been some mistake and referred them to a travel agency. Surprised at the lack of response, the membership director begins to check around and discovered that everyone who called has been told that there was an error! The result: no sales.

These two examples might seem ludicrous, but they are real. Large organizations are not the only ones to experience communication breakdowns. We all are busy and absorbed in our projects. It is also important to train staff members in order to increase their capacity and motivation.

Questions to Ponder:

1. Has the organization's staff been informed about the income-generation initiatives in progress?
 2. Has a list of people who might be involved, even indirectly, been drawn up?
 3. Has the organization anticipated briefing and/or training people indirectly involved?
 4. Has the impact of this initiative on the organization's image been considered? If it were negative, has staff been informed about potential problems, and strategies for addressing them?
-

Indicators of Financial Sustainability

Since the launching of its Institutional Development program, The Nature Conservancy has developed various indicators to measure progress in institutional development. We strongly believe in the importance of using these indicators; they provide a system for measuring progress in specific areas, and set a goal to strive for. These indicators are the fruit of the shared experiences of all the affiliated organizations. The ideal goal (scale 5) is the result of an analysis of factors influencing the success of many organizations.

The indicators that follow are part of a more comprehensive set of measures of institutional development. Here we present those relevant to organizational financial sustainability.

It is worth reiterating that development usually does not take place evenly in all areas. It must also be emphasized that these indicators are constantly evolving. If an organization has found other solutions that lead toward success, they are as valid as the goals offered in this chapter. This simply represents a common denominator.

The Questions to Ponder presented in different subject areas will help expand your vision as you undertake this exercise. These reflection questions are part of a diagnostic tool of financial sustainability. This exercise's sole purpose is to aid in your organization's development. We hope it becomes a tool that your organization will use to achieve its goals.

A: Indicators of Strategic Vision and Leadership

Indicator A 1: Strategic Planning

| | |
|-------------------------|---|
| <input type="radio"/> 5 | The strategic plan includes long-term institutional financial plan (3-5 years) updated periodically as the result of a participatory process involving staff, board and outside advisors. |
| <input type="radio"/> 4 | Staff uses the current strategic plan, which incorporates long-term institutional financial plan, to guide all major program decisions, including submission of grant proposals. |
| <input type="radio"/> 3 | Current strategic plan exists. Staff is somewhat familiar with strategic plan. |
| <input type="radio"/> 2 | Strategic plan outdated or being prepared. |
| <input type="radio"/> 1 | No strategic plan exists. |

Indicator A 2: Board Effectiveness

- | | |
|-------------------------|---|
| <input type="radio"/> 5 | Board members govern actively and effectively to guide the future of the organization and ensure its long-term institutional and financial stability. Committees have been formed to address specific issues such as investments, financial sustainability, fundraising, etc. |
| <input type="radio"/> 4 | Most board members regularly provide leadership, financial oversight, set policies, participate in planning, give or obtain funds and provide continuity for leadership transitions. |
| <input type="radio"/> 3 | Some board members occasionally assume leadership and oversight, and give or obtain funds for the organization. |
| <input type="radio"/> 2 | Only a few board members contribute time, effort or money to organization's governance. |
| <input type="radio"/> 1 | Board members are inactive, do not provide guidance and/or funding. |

Indicator A 3: Strategic Financial Planning

- | | |
|-------------------------|---|
| <input type="radio"/> 5 | Organizations' financial sustainability plan implemented and monitored; goals are being met and adjustments made. |
| <input type="radio"/> 4 | Organization has tested and analyzed various approaches and integrated those strategies into a plan to achieve its financial goals, and has begun to achieve some of those goals. |
| <input type="radio"/> 3 | Organization has begun to develop fund-raising and other income-generation strategies to respond to quantified financial need and has begun testing those approaches. |
| <input type="radio"/> 2 | Organization has quantified financial need to accomplish administration and program objectives for the next 3-5 years. |
| <input type="radio"/> 1 | Organization has not identified minimum financial need to accomplish administration and program objectives for the next 3-5 years. |

B: Indicators of Income-Generating Capability

Indicator B 1: Fundraising and Development Plan

- | | |
|-------------------------|--|
| <input type="radio"/> 5 | The fundraising process is integrated with financial administrative systems, and monitored and adjusted on an ongoing basis. |
| <input type="radio"/> 4 | Clearly defined fundraising goals and plan developed based on the organization's financial/strategic plans; responsibilities shared among several individuals as part of a systematic process. |
| <input type="radio"/> 3 | Organization has begun to systematize resource generation activities; delegation of donor contacts and fund-raising efforts. |
| <input type="radio"/> 2 | One individual responsible for almost all resource-generation. |
| <input type="radio"/> 1 | No systematic resource-generation activities under way. |

Indicator B 2: Diversification and Funding Sources

- | | |
|-------------------------|---|
| <input type="radio"/> 5 | Organization has a broad funding base consisting of at least eight sources (donors); no one source contributes more than 25% of the total annual revenues. |
| <input type="radio"/> 4 | At least five funding sources (donors) account for 60% of the organization's overall budget; no one source accounts for more than 25% of the organization's revenues. |
| <input type="radio"/> 3 | One funding source (donor) accounts for more than 40% of organization's revenues; at least four other sources account for remaining 60%. |
| <input type="radio"/> 2 | One funding source (donor) accounts for more than 60% of organization's revenues. |
| <input type="radio"/> 1 | One funding source (donor) accounts for more than 80% of organization's revenues. |

Indicator B 3: Generation of Unrestricted Income

- | | |
|-------------------------|---|
| <input type="radio"/> 5 | Unrestricted income accounts for more than 40% of the organization's total annual budget. |
| <input type="radio"/> 4 | Unrestricted income accounts for more than 20% of the organization's total annual budget. |
| <input type="radio"/> 3 | Unrestricted income accounts for more than 50% of annual operations costs. |
| <input type="radio"/> 2 | Unrestricted income accounts for less than 50% of annual operations costs. |
| <input type="radio"/> 1 | Organization generates no unrestricted income. |

Note: This indicator refers to funding that may be spent at the organization's discretion. This funding may have been earned (sale of products or services, income from a trust fund) or provided by donors without specific instructions on how the funds are to be spent. In order to answer this question, an organization must have previously determined its operations costs (also known as overhead or indirect costs), or determine that more than 20% of total income is derived from unrestricted sources.

C: Indicators of Financial Administration Capability

Indicator C 1: Indirect Cost Recovery Rate

- | | |
|-------------------------|--|
| <input type="radio"/> 5 | Indirect cost recovery rate (also called operations costs or overhead) has been calculated by external auditor and is being included in all grants (when donors allow it). |
| <input type="radio"/> 4 | Indirect cost recovery rate has been calculated by an external auditor and is included in most grants. |
| <input type="radio"/> 3 | Indirect cost recovery rate calculated but not verified by external auditor; rate included in most grants. |
| <input type="radio"/> 2 | Some indirect costs included in most grants, but a rate has not been calculated. |
| <input type="radio"/> 1 | No indirect costs charged in project grants. |

Indicator C 2: Accounting Systems

- | | |
|-------------------------|---|
| <input type="radio"/> 5 | Accounting information utilized in decision-making process. |
| <input type="radio"/> 4 | Organization-wide chart of accounts permits cross-project financial analysis. |
| <input type="radio"/> 3 | Accounting done by project, "rolled-up" into organization-wide statement. |
| <input type="radio"/> 2 | Accounting done by project or donor only, no roll-up. |
| <input type="radio"/> 1 | Accounting done by disbursement. |

Indicator C 3: External Financial Reporting

- | | |
|-------------------------|---|
| <input type="radio"/> 5 | Financial reports for external review are completed and delivered on time, and utilized regularly for decision making. Financial reports are included in organization's Annual Report and have been published for at least two consecutive years. |
| <input type="radio"/> 4 | Financial reports for external review are completed and delivered on time, and occasionally utilized for decision making. |
| <input type="radio"/> 3 | Financial reports for external review are usually completed and delivered on time. |
| <input type="radio"/> 2 | Financial reports and statements for external review are often incomplete or delivered late, including donor reports, balance sheet, income and expense statement, and cash flow. |
| <input type="radio"/> 1 | Financial reports and statements produced sporadically for internal use only. |

Indicator C 4: Internal Financial Reporting

- | | |
|-------------------------|--|
| <input type="radio"/> 5 | Organization-wide and program-specific financial statements, showing cumulative actual income and expenditures versus budgets, produced and circulated quarterly for at least two consecutive years. |
| <input type="radio"/> 4 | Organization-wide and program-specific financial statements, showing cumulative actual income and expenditures versus budgets, given at least quarterly to program managers and board. |
| <input type="radio"/> 3 | Organization-wide and program-specific financial statements, showing cumulative actual income and expenditures versus budgets, produced but not circulated to program managers and/or board. |
| <input type="radio"/> 2 | Some program-specific financial statements, showing cumulative actual income and expenditures versus budgets, produced but not circulated to program managers and/or board. |
| <input type="radio"/> 1 | No financial statements showing cumulative actual income and expenditures versus budgets produced. |

Indicator C 5: External Oversight (Audits)

| | |
|-------------------------|--|
| <input type="radio"/> 5 | Both internal and external audits conducted on a periodic basis and all recommendations fully implemented. |
| <input type="radio"/> 4 | Both internal and external audits conducted on a periodic basis and recommendations partially implemented. |
| <input type="radio"/> 3 | Both internal and external audits conducted on a periodic basis. |
| <input type="radio"/> 2 | Only internal audits conducted. |
| <input type="radio"/> 1 | No internal or external audit or formal board review of organization's financial statements conducted. |

Indicator C 6: Cash Flows

| | |
|-------------------------|--|
| <input type="radio"/> 5 | Cash flow, calculated quarterly, guides programmatic decisions for at least two consecutive years. No negative annual cash flow exists for two consecutive years (annual income equal to or exceeds expenses). |
| <input type="radio"/> 4 | Cash flow, calculated quarterly, guides programmatic decisions. No negative annual cash flow exists. |
| <input type="radio"/> 3 | Cash flow calculated annually, used to guide programmatic decisions. |
| <input type="radio"/> 2 | Cash flow calculated occasionally or for specific projects. |
| <input type="radio"/> 1 | No cash flow analyses done. |

Conclusions

Achieving financial sustainability is a long-term goal that requires the concerted efforts of the entire organization. While access to grants or preferential conditions is a competitive advantage enjoyed by non-profit organizations, we cannot rely exclusively on such privileges to reach our goal. If we were to do so, we would be allowing luck to determine our fate.

We must understand that achieving financial sustainability is an ongoing process that has to become part of our organization's day-to-day management: in strategic planning, in administration and finances, in fundraising policies, and in the planning and implementation of strategies that enable us to generate our own income.

We also must recall that creativity alone is not enough to achieve financial sustainability; it is essential that we adopt the most advanced strategies and methods within our grasp to maximize our potential for success.

Achieving financial sustainability should no longer be an impossible dream. Achieving this goal is both a necessity and an obligation for non-profit organizations since it ensures our ability to accomplish our respective missions.