Funds Management in NGOs – A Conceptual Framework

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Abstract

Nongovernmental organizations play an important role in bridging the gap between government, business sector and society. The NGOs also act independently for the welfare of the society by empowering them through training programs, financial support, skill development, advocacy etc. Their aim is to contribute to a just society, with the values equality, liberty and freedom being well observed. Nongovernmental organizations rely heavily on unearned income to fund their activities. This unearned income arrives in the form of donations from the public and business, as well as grants from foundations and governmental agencies. As the nonprofit organizations, have limited opportunities to earn income, and reliance on donations and grants is of paramount importance, efficient utilization of resources become crucial. As the NGO's are receiving huge amount of funds and as major financial scandals have rocked the nonprofit world, it becomes essential on the part of the NGOs to have greater financial transparency and accountability and observe sound financial management practices in their working. This paper makes an attempt to throw light on the various dimensions of fund management of NGOs, the role and relevance of fund management and the prevailing fund management practices in the NGOs.

Keywords: *Non-GovernmentalOrganisations, Fund Management, Accountability*

Introduction

Nonprofit organisations do not distribute surplus funds to owners or shareholders, but instead use them to help pursue organizational goals. They are not affiliated to any government or private sector entity and are devoted to managing resources and implementing projects with the goal of addressing social problems. Nonprofit organizations play an important role in bridging the gap between government, business sector and society. Besides, the nonprofit organisations also act independently for the welfare of the society by empowering them through training programs, financial support, skill development, advocacy etc. Nonprofit organisations include charities, nongovernmental organisations, self-helpgroups, social movements, and trade unions etc. which take on the responsibility of conducting programs which are generally side lined by local or state authorities. The role of nonprofit organizations assumes even greater significance as they are the mediums to deliver the goods for the achievement of social welfare objectives and their main aim of establishment and functioning in the interest of the public at large with no associated monetary profit. The presence of a large non-profit sector is sometimes seen as an indicator of a healthy economy in local and national financial measurements. With a growing number of non-profit organizations focused on social services, the environment, education and other unmet needs throughout society, the nonprofit sector is increasingly central to the health and well-being of the society (Pant, 2006).

There are number of problems faced by the Non-Governmental Organisations like inefficient management, lack of resources, capacity building, performance measurement, increasing overhead charges, resource mismanagement etc. Until recent years, financial reporting by nonprofit organizations has been of relatively little interest to non-management board members and the general public. An attitude of permissiveness, which focused on good works and a desire to minimize administrative costs, has permitted the issuance of financial statements that were often incomplete and misleading. Fund raisers, in an effort to build a climate responsive to their appeal, have tended to influence reporting in a way that emphasises financial need. The accounting profession has either ignored the area entirely or has made excuses for inadequate reporting, often specifically excluding nonprofits when accounting principles were promulgated. (Racek, 1988)

In many NGOs financial management is given a low priority. This is often characterised by poor financial planning and monitoring systems. But NGOs operate in a rapidly changing and competitive world. If their organisations are to survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools. Good practice in financial management will help managers to make effective and efficient use of resources to achieve objectives and fulfill commitments to stakeholders. It will help NGOs to be more accountable to donors and other stakeholders. Good financial management enables the NGOs to gain the respect and confidence of funding agencies, partners and beneficiaries. It will also give the NGO the advantage in competition for increasingly scarce resources and will help NGOs prepare themselves for long-term financial sustainability. (Lewis, 2009). We find that the number NGOs are growing even in India. The Indian NGOs have also been noted for their good work at the national and international level. However, just as in other countries, even in India, the awareness about the importance of funds management in NGOs has not received much of the importance. There has been increasing public scrutiny of the activities of these NGOs especially due to the fact that majority of them receive funds from abroad for carrying out their activities. It has been noted that majority of the NGOs in India are dependent on external sources of financing than on the internal sources of financing, which makes them vulnerable to the demands of the donors. Further, the secrecy maintained about the funds generates suspicion about their activities. This study makes an attempt to highlight the importance of fund management of NGOs, and the different dimensions of financial management of NGOs in India.

Literature Review

There have been number of literatures in the different areas of Non-profit Financial Management, all over the world.

Hankin, Seidner and Zietlow (1998) observe that in today’s world characterized by competition, financial management of a non-profit organisation is just daunting as that of a for profit organisation. Non-profit managers should have the financial expertise which involves, managing an organisation’s financial resources, establishing and revising financial policies, accounting, budgets and financial reports, investing for the short and long term and controlling and managing risk. Bryce (2000) states that finance is simply a necessary tool to meet the organisation’s strategic goals. McCarthy (2007) notes that demand for financial accountability by non-profit organizations has dramatically increased. McLaughlin (2009) specifies that for financial purposes, a better way of looking at this industry is to sort it into categories according to the primary economic function the organisations perform. Few non-profit managers have any formal training in financial management. Increased emphasis on financial management in nonprofit organizations reflects a laudable striving for accountability. It is not enough to keep the financial records in order, but one must be able to demonstrate good financial systems in order to meet all the other rising demands on today's non-profits.

Drucker (1979) observes that Non-profit organisations are misdirected by budget. Dependence on a budget allocation militates against setting priorities and concentrating efforts. Maddox (1999) identifies that Budgeting is fundamental to non-profit management. It is one of the best tools available to focus and coordinate an organisation. Oster (1995) stresses that for many non-profits; fund raising is the most troublesome aspect of management. The budgeting system and the financial reporting system are as fundamental to planning and control in a non-profit as they are in a for-profit organization. Kingma (1993) emphasizes that each nonprofit organization manager, in order to choose the correct level of revenue diversity, must consider the variance of all streams of revenue, the covariance between these streams, and the expected level of growth of each stream. Future research needs to develop a formal model of the resources spent by non-profit organisation managers to secure funding. Dropkin and Haydon (1998) gave importance to cash flow management of non-profit organisations. Linzer &Linzer (2008) state that cash flow principles are applicable to wide variety of institutions, including nongovernmental organisations, religious institutions as well as other non-commercial entities that seek to provide benefits to society. Understanding and managing cash flow, learning to bridge the gaps or dealing with surpluses effectively and working towards efficient flow of all the resources in the non-profit world is required in the interest of the financial health and welfare of the organisations in the non-profit world. Zietlow&Seidner (2007) specify that non-profits may experience unique, challenging cash flow problems which can be solved using tools such as cash forecasting methods which will monitor cash flow dynamics and the cash position.

In India, the term nonprofit organisations are synonymously used with the term Non-Governmental Organisations. Kandasami (2006) states that there are nearly 1.2 million non-profit organisations (NPOs) in the country and this sector offer challenging and rewarding opportunities to accounting professionals in particular. Ravichandran (2007), states that in India, 86 % of the nonprofit organisations/NGOs receive grants and contracts from the government and ODA. About three-fourths (71%) of nonprofit organisations/NGOs have some income from donations and about 57% get community contributions. Sooryamoorthy and Gangrade (2001) observe that NGOs in India meaningfully contributed to the development-oriented initiatives, including empowerment of women and economically weaker sections of workers.

Literatures on financial management of NPO's in Indian context are very few and this area provides ample scope for researchers in India.

Objectives of the study

1) To throw light on the conceptual aspects of fund management of NPOs
2) To bring out the relevance of fund management in NGOs.
3) To focus on the prevailing financial management practices of the NGOs

Conceptual framework

The International Centre for Not for profit law observes that the term "not-for-profit organization" (NFPO) is used as a broad-based term that encompasses all organizations that are known variously as charities, non-profits, non-governmental organizations (NGOs), private voluntary organizations (PVOs), civil society organizations (CSOs), etc. "Not-for-profit" is used in preference to "non-profit" in order to emphasize that a defining criterion is the intention of the organization not to make profits for private gain. It is possible that such an organization will in fact make a profit from time to time, but that is not the principal purpose for which it is organized and operated nor is its purpose to distribute any portion of any profit for private gain. The major distinguishing characteristic between not-for-profit and for-profit organizations is that the former are governed by the principle of non-distribution.

PRIA, Society for Participatory Research in Asia defines a non-profit organization as an entity that defines five criteria simultaneously:

1. It should have an institutional identity.
2. It should be separate from the government.
3. It should be non-profit distributing.
4. It should be self-governing.
5. It has been set up voluntarily. (Bhargava&Kumar, 2006).

As an entire sector, nonprofits comprise a broad array of organisations, institutions, agencies and collectives, including charities, cooperatives, religious groups, health, education and social service providers, self-help and mutual aid groups, social justice groups, environmental, cultural, arts, recreation, sports and professional associations such as chambers of commerce. Their work may include delivering services, advocating on behalf of community causes, encouraging self-help, facilitating international, community and economic development, advancing religious faith and practice or raising funds and providing financial support to other voluntary organisations. (Bhargava& Kumar, 2006).

The World Bank defines NGOs as "Private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development". A World Bank key document, “Working with NGOs”, adds, "In wider usage, the term NGO can be applied to any non-profit organization which is independent from government. NGOs are typically value-based organizations which depend, in whole or in part, on charitable donations and voluntary service. Although the NGO sector has become increasingly professionalized over the last two decades, principles of altruism and voluntarism remain key defining characteristics." Vakil (1997) states that “NGO’s are self-governing private, not-for-profit organisations that are geared towards improving the quality of life of disadvantaged people”. In most parlances a NGO is almost synonymous with nonprofit or voluntary organisation. The typical forms of NGOs are advocacy NGOs, consultancy/research organisation, training/capacity building organisations, networking organisations, mother NGOs, grass root organisations, city based organisations, national organisations, international organisations, self–help groups, and religious NGOs. IndianNGOs.com estimates that there would be around 1.5 million nongovernmental organizations working in India.

A principal challenge for non- profit organisations in managing different sources of funds is how to generate optimal support streams in the future while protecting the mission.

According to the International Accounting Standard No.7 the term "fund" generally refers to cash, to cash and cash equivalents, or to working capital (Maheshwari, 2004). Management of funds involves efficient acquisition and deployment of funds. It helps in planning for surplus, capital spending, measuring costs, controlling inventories, accounts receivable, etc.

Dimensions of Fund Management of NGOs

Sources of Funds: Funds are highly essential for the survival of nonprofit organisations. They normally draw their funds from internal and external sources. Internal sources include membership contribution, sponsorship fees, sales, interests etc. External sources include the funds collected within India and outside India. The external sources within India include grant in aid (from central or State Government), donations in kind such as, medicines, books, food items etc., private institutional or grants from parent NGOs, corporate bodies, tourists/visitors etc. The external sources outside India include bilateral funding, multilateral funding, private institutional funding, overseas non-resident communities etc. The purpose for which, and the account of foreign contributions received are regulated by Foreign Contribution Regulation Act, 1976 (FCRA). Further the institutions receiving such funding are required to submit necessary documents and returns. (Bhargava&Kumar, 2006). In India, international bilateral aid has traditionally been routed through the government. Some embassies of donor countries have started transmitting aid directly to social activists with the result that the aid is not flowing only through the government. The exclusivity of the government has been by passed. Moreover, on its own realization as well as under the pressures of international bodies like the World Bank, the government has started giving greater role to the NGOs in the developmental process. Thus, today's NGOs have to keep in mind the value systems of various donors if they have to be multi-funded. In the process, they will also have to deal with an array of administrative arrangements related to the different funding agencies.

Those voluntary agencies in India that receive foreign funds are under a statutory obligation to get themselves registered with the Home ministry. The registration is given only after fulfilling certain terms and conditions lay down by the government. The registration is required to ensure that they function in a manner consistent with the rules. The foreign contribution regulation act, 1976, makes it incumbent upon a registered organization to intimate to the central government the amount of each foreign contribution received by it, the source from which and the manner in which the foreign contribution was received and the purpose for which such foreign contribution as utilised. Such an organization is always under a strict vigil of the government. These organisations also come under the ambit of the FEMA, 2000. India maintains bilateral cooperation with almost all the DAC (Development assistance committee) countries of the OECD (organization for economic cooperation and development) and receives aid from all the multilateral donors. They provide funding to Indian voluntary sector organisations through various channels by the approval of the government of India. The major part of funding to the voluntary sector in India comes primarily from the international NGOs and especially from the NGOs of Europe and NorthAmerica. There are more than 200 agencies abroad that regularly finance the network of voluntary associations in India. Among these agencies some of the major donors maintain their offices in India. Bread of the world, (Germany), Danish International development agency (Denmark International research development corporation (Canada). There are some apex bodies in India, which distribute the funds from international donors, and act as coordinators between the smaller voluntary bodies and the foreign donor agencies. The chief among them include AVARD, Gandhi Peace Foundation, VishwaYuvak Kendra, Christian Institute for Study of Religion and society (Bangalore), rural development advisory services (secunderabad), and social work and research centre (tilonia, Rajasthan (misra, 2005)

Merits and demerits of foreign aid: There is a feeling that the heavy de dependence of these NGOs, upon foreign aid has reduced the independence, autonomy, freedom, credibility, integrity and effectiveness. The greater challenge is the funding procedures, limiting of operational effectiveness and regular flow of funds for continuing projects, etc. Any delay in the funding decisions by the government may result in the collapse of the project. Government funding has also had a negative impact on the NGOs relationships with their target groups or traditional constituencies as most of their time now is spent worrying about the funding process. Many A time, governments impose restrictions to funding for NGOs in accordance with their foreign policies and economic interests. Certain grant restrictions may result in an imbalance in the NGO programmes. The impact of the donor agencies 'tendencies to define strategies of NGOs, removes them from the voluntary ethos, kills their sensitivity to the reality at the grass roots. Though there is no denying the fact that the voluntary sector has achieved great success and has been able to function effectively due to the ital. external support, yet it is of equal importance to understand the impact the donor agencies have had on these organization all these years.

Legal aspects relating to NPO's

There is a wide diversity of structures and purposes in the NPO landscape. For legal classification and eventual scrutiny, there are, nevertheless, some structural elements of prime legal importance:

- Economic activity
- Supervision and management provisions
- Representation
- Accountability and Auditing provisions
- Provisions for the amendment of the statutes or articles of incorporation
- Provisions for the dissolution of the entity
- Tax status of corporate and private donors
- Tax status of the foundation

Some of the above must be, in most jurisdictions, expressed in the document of establishment. Others may be provided by the supervising authority at each particular jurisdiction. While affiliations will not affect a legal status, they may be taken into consideration in legal proceedings as an indication of purpose. Most countries have laws which regulate the establishment and management of NPOs and which require compliance with corporate governance regimes. Larger organizations are required to publish their financial reports detailing their income and expenditure for the public. In many aspects they are similar to business entities though there are often significant differences. Both non-profit and for-profit entities must have board members, steering committee members, or trustees who owe the organization a fiduciary duty of loyalty and trust.

Formation and Tax exemption

In many countries, non-profits may apply for tax exempt status, so that the organization itself may be exempt from income tax and other taxes. In India, NPOs are commonly known as NGOs. They can be registered in four ways, viz. 1. Trust 2.Society 3.Section-25 Company 4. Special Licensing. Registration can be done with the Registrar of Companies (RoC). The following laws or Constitutional Articles of the Republic of India are relevant to the NGOs:

- Articles 19(1)(c) and 30 of the Constitution of India
- Income Tax Act, 1961
- Public Trusts Acts of various states
- Societies Registration Act, 1860
- Section 25 of the Indian Companies Act, 1956
- Foreign Contribution (Regulation) Act, 1976

Importance of Funds Management in NGOs:

A for-profit enterprise focuses on profitability and maximizing shareholder value. The NGOs primary goal is not to increase shareholder value but to provide some socially desirable need on an on-going basis. A not-for-profit generally lacks the financial flexibility of a commercial enterprise as it depends on resource providers who are not engaged in an exchange transaction. The resources provided are directed towards providing goods or services to a client other than the actual resource provider. As the For-Profit Organizations are focused on profit maximization, and Not-For-Profit Organizations (NPOs) are meant to render service to the society, there are also certain variations in the accounting system and practices followed in the corporate sector and NPO sector. For Non-profit organisations, the program-oriented fund based accounting for the different projects and programs of the organization linking them to activities and results, is an important accounting practice. Financial reporting in nonprofit organizations too differs from for profit organizations. (Kandasami, 2006).

In recent years, there is a witness of dramatic increase in the importance, number and diversity of NGOs. However, with their increased importance come increased responsibilities. NGOs have the responsibility to be transparent, honest accountable and ethical to provide accurate information, and not to manipulate situations for the personal benefit of their boards and staff. NGOs have a calling to go beyond the boundaries of race, religion, ethnicity, culture and politics. They have the obligation to respect each person's fundamental human rights. Thus we find that there has been a rising visibility and stakes of NGOs work. Several major financial scandals have rocked he nonprofit world. Activities of NGOs are viewed with suspicion by the society. In the nonprofit sector, there are no owners, and the accountability is absent. So NGOs should strive for openness and honesty internally and towards donors and members of the public. An NGO should be accountable for its actions and decisions not only to its funding agencies and the government, but also to the people it serves, its staff and members, partner organisations, and the public at large. (S, Bhargava, Radhakrishna, & Manivannan, 2007)

The management and protection of financial resources must be a concern for all NGOs for without adequate financial resources; an organization is unable to achieve its mission and may not survive. Financial resources or assets fall into three categories-money, goods, and services. Money consists of cash in hand or cash at bank, securities and other investments. Goods involve merchandise or stock, supplies, and equipment. Services are the programs and activities the organization offers to its clients. The risks in financial management are any actions that contribute to the reduction in value or loss of any of the organisation's financial assets. A financial loss can have a tremendous impact on a nonprofit. The loss of money can create a cash flow crunch and force the organization to reduce its spending. The actions may include eliminating staff or reducing the hours worked plus adjusting the services offered to clients. Besides reduced services, the nonprofit may experience negative publicity about the incident. The bad press can lead to a decrease in donations and the willingness of volunteers to work with the organization. Lastly, a financial loss can affect the reputation of the people involved. All these factors make it imperative for every nonprofit organization to have the proper financial controls in place. (Narayan, 2005)

The different categories of financial risks faced by the NGOs are:

1. Fraud**:** Every NGO is vulnerable to fraud. The theft or misappropriation of funds can have severe consequences. An employee can embezzle funds, steal office supplies or merchandise, pad their expense accounts or create a fictitious company and bill the organization for services never rendered. An outsider can sell bogus merchandise, overcharge the organization for materials or services, or entice the organization to make bad investments. A single major theft of funds or equipment could seriously jeopardize nonprofit's viability. The organization may suffer a cash flow crunch, loss of donor confidence, reduction in services and a loss of jobs. The public reporting of a loss could be devastating as media reports affect donations, the availability of volunteers and public goodwill. Catching wrongdoing before it translates to sizable losses is the key. Therefore, in addition to establishing internal controls, nonprofits must be ever vigilant in monitoring its programs. (Narayan, 2005)
2. Investments**:** The size and types of investments will vary with each organization. For the smaller organizations, investments might be cash on hand while large hospitals, colleges and universities may have sizable endowment funds. Regardless of the size of the investment funds every nonprofit need to control and monitor its investments. If the nonprofit purchased stocks or bonds in a company that subsequently comes under public and media scrutiny, it may experience adverse publicity or a significant decrease in the value of the investment. Every board should establish an investment policy that will guide the nonprofit in its investment and financial decisions. (Narayan, 2005)
3. Misuse of funds**:** An excellent way to monitor an organisation's progress is through its use of funds. Improper use of the funds can cause the funder to withdraw the money, require repayment of the expended funds and refuse to provide future funding. Funds inappropriately expended can lead to the loss of the organisation's tax-exempt status or other legal actions. As pressures continue to mount for nonprofits to meet social needs, it is often easy to lose sight of the organisation's mission. (Narayan, 2005)
4. Tax liabilities**:** A nonprofit may also be responsible for charging and remitting sales tax on items sold. Unrelated business income is becoming a significant concern as

nonprofits seek creative ways to raise funds. Every nonprofit is responsible for knowing and paying its tax liabilities. (Narayan, 2005)

5. Tax exempt status**:** If the nonprofit uses its funds for reasons not related to its charitable purpose, it can lose its tax-exempt status. (Narayan, 2005)
6. Fundraising: The financial risks for fundraising are two-fold and extend beyond the theft of the money raised. First an organization must protect itself from unscrupulous fundraising. An organization may also suffer losses stemming from injuries at a fundraising event staged by the fictitious group. Every nonprofit must guard against improper use of its name and logo, especially with regard to fundraising. (Narayan, 2005)
7. Physical assets**:** Every organization owns office furniture and other fixtures and equipment, used to meet its mission, are subject to loss. The losses of the supplies could have a devastating effect on the organization's mission. Many organizations lose money on merchandise sales due to the lack of inventory and access controls. The best protection is systems and procedures that limit the access to these assets. (Narayan, 2005)

General observations on Fund management and financial practices of NPOs

Sources of funds and Utilisation of funds of NGOs

The NGOs in India are banking more on funds from foreign donors. They do not seem to explore resource mobilization through finance generating economic activities. Nor are they concentrating on funds from local community. The government funding is difficult to procure and it is tied up with bureaucratic shackles. These conditions are detrimental to the original philosophy of community welfare by the way of voluntarism. In the hunt for funds, voluntary agencies are taking up projects and fulfilling the conditions prescribed by the donors in the same way as contractors. The international agencies such as World Bank provide large sums to the government to be expended on social welfare. The government formulates projects and invites the participation of the NGOs. Those NGOs who are interested submit 'proposals' of estimates in the same manner as bidding of tenders. This is a method of scuttling the philosophy of voluntarism on which the nongovernment sector is founded. The government and the international donors both do not include funds for infrastructure building by NGOs in their grants. The money provided barely meets the project demands. Smaller NGOs are the hardest hit as they do not receive support from any quarter for institutionalization of their organisations. They find it difficult to build either infrastructure of capacities. Voluntary agencies have to search for alternative sources of funds that would not inhibit their innovations and creativity. Such options could include the hitherto less tapped, philanthropy of the industrial houses. They have a long tradition of charity. There is a good scope of collaboration of the two sectors.

In an article titled "NGOs: A silent scam" , printed in Frontline reports that Centre and state governments have provided at least Rs. 6,654.36 crore to NGOs as grants during 2002-2009. But in an overwhelming number of cases, almost 97 percent, the NGOs have not furnished utilization certificates indicating the purpose for which the grants were given. Nor have the governments asked for these certificates. Besides, a number of blacklisted NGOs have changed their names in order to continue being beneficiaries of the grant. There has been no follow-up action even in those cases where irregularities have been detected. In short, there has been no accountability about where the money was going, whether it was being spent for the purpose for which it was given, who was taking it, and on what criteria. It has also come to light that the beneficiary NGOs spent over 15-20 per cent of their grant in getting their proposal processed, which meant that this money went in bribes, which the NGOs obviously recovered from the grant. (Tripathi, 2013)

SuhasChakma, director, ACHR, which recently released the study titled “India funds to NGOs squandered: observes “it is a huge scam. While the guidelines for NGO funding are excellent , there is no transparency in how the beneficiary NGOs are selected, whether they utilize the funds because there have been no utilization certificates in a large number of cases, and most significantly, no accountability on the part of either the officials or the NGOs”. Conducted over three years since 2009, it consists of over 710 pages of RTI replies from various central ministries and state government departments. Even in cases where irregularities have been brought to light, there is hardly any action ever. The office of the comptroller and auditor general, while auditing the national afforestation and eco-development programmes by the ministry of environment and forests, commented that there was the possibility of a scam by the NGOs/voluntary organisations as 7916 utilisation certificates from the grantees for Rs.596.79 crore from 1981-2009 were not submitted and none of the grantees came back for the second instalment of the grant after availing itself of the first instalment. (Chakma, 2013)

The Delhi high court has called for toughening of licensing norms for NGOs observing that 90% of them are “fraud” and “merely money making devices”. Only one out of every hundred NGOs serves the purpose they are set up for” a bench headed by Justice Pradeep Nandrajog said. (Nair, 2013)

Financial Reporting of NGOs

Financial reporting in NGO sector differs from for profit organizations. Each organization will choose a different set of regular financial reports to prepare and analyze. At different times an organization will need different reports to provide information to support its decision making. Each Non Profit has different financial issues and the types and frequency of reports depend on the nature of the nonprofit and its situation. Banks might want reports to verify financial strength to pay back loans. Foundations, individuals, or other donors may want reports to verify that donations are being spent as expected by the foundation or donor.

b) The financial statements that not-for-profit organizations such as charitable organizations and large voluntary associations publish tend to be simpler than those of for-profit corporations. Often they consist of just a balance sheet and a "statement of activities" (listing income and expenses) similar to the "Profit and Loss statement" of a for-profit. Charitable organizations in the United States are required to show their income and net assets (equity) in three categories: Unrestricted (available for general use), temporarily Restricted (to be released after the donor's time or purpose restrictions have been met), and Permanently Restricted (to be held perpetually, e.g., in an Endowment)

c)) There is difference among the NGO’s in the financial reporting systems. Some of them prepare two sets of financial statements. One set is focused towards the donors of the funds. It is normally prepared covering a period of 12 months from 1st January to 31st December. This report gives a detailed account of the uses of the funds generated from different sources, especially the different donors. The second set of annual reports is generally prepared by all types of nonprofit organisations, which will be filed with the registrar of cooperative societies.

d) Though the NGOs have a binding obligation to file the returns, every year with the registrar of cooperative societies, it has been found that some of them do not file it annually. The laws relating to the compulsory filing of returns is not as strong as in the case of for-profit organisations.

e) NGOs financial reports are not easily accessible to the members of general public.

f) It has been noted that most of the small NGOs do not keep a proper record of the funds received and disbursed. Proper accounting systems and principles which are an essential part of financial management are not followed in such types of organisations.

Financial Tools or Methods used in NGOs

Some of the important financial tools or methods used in financial management for measuring the effectiveness of firm's actions and for measuring the validity of the decisions regarding accepting or rejecting future projects, are Cost of capital, Capital Structure theories, capital budgeting appraisal methods, ABC analysis, Cash management models, Ratio analysis, Fund flow analysis, Cash flow analysis, profit analysis, breakeven analysis etc.

However it has been noted that the techniques which are used for for-profit organisations have not been effective in measuring the performance of the nonprofit organisations as the NPOs differ from the for profit organisations in their basic orientation. Focus of the operations of NGOs change over time, which makes the comparisons difficult.

Suggestions

Financial management to an NGO is rather like maintenance is to a vehicle. If we don't put in good quality fuel and oil and give it a regular service, the functioning of the vehicle suffers and it will not run efficiently. If neglected, the vehicle will eventually break down and fail to reach its intended destination. In practice, financial management is about taking action to look after the financial health of an organisation, and not leaving things to chance. This will involve managing scarce resources, managing risk, managing strategically and managing by objectives (Lewis, 2009). Based on the pilot study of some of the NGOs in coastal districts of Karnataka and also on the available literature, following recommendations are made to enhance the financial viability of the NGOs.

a) Preparing the financial statements and auditing of the same will have to be compulsorily taken up by the NGOs.
b) Uniformity in the financial statements will have to be maintained
c) Filing of annual returns should be made just as it is for the for profit organisations.
d) The financial statements should be available for the public scrutiny, so that the concept of transparency can be improved in the management of NGOs.
e) NGO networking will have to be strengthened among the NGOs operating in different parts of the country.
f) Conferences of NGOs will have to be conducted from time to time, by the leading NGOs in the region and it should encourage the participation from the public including the academicians. This would definitely keep the NGOs good image intact in the minds of the public and at the same time it would motivate the younger generation to take up selfless services for the betterment of the society.

g) It's essential on the part of NGOs to appoint people well versed in NGO financial management to handle their financial matters.

Conclusion

Effective and accountable financial management is the corner stone of NGO accountability and sustainability, and a key component of program and organizational management. However, in many NGOs, the organization's financial planning, monitoring, and reporting systems and how they are integrated into the overall organizational management process still needs strengthening. Meanwhile, the world of NGOs is rapidly changing, and increasingly competitive. To be able to survive and develop, NGOs must have and implement quality financial management systems, which fulfill requirements for accountability, while strengthening the organization's sustainability. Developing professional and strategic financial management will not only increase supporters' trust, it can also enhance an organization's ability to manage their own resources for sustainability. Strategic planning, establishing internal controls, organising structure and responsibility, budgeting, preparing performance reports, financial reporting, cash flow analysis etc. come under the purview of Ngo financial management. Clearly, the increasing availability of official funding for NGOs, the popularity they enjoy, and the increasing access they are offered to centers of national and international decision making represent both an opportunity and a danger. As far back as 1988, Jan Pronk (inHellinger et al 1988) warned that 'the corruption of NGOs will be the political game in the years ahead'. Pronk saw 'corruption 'not simply in terms of financial scandal, but more broadly as the deviation of NGOs from their mission for social transformation. The only way in which NGOs can avoid corruption in this sense is to develop systems for performance monitoring, accountability and strategic planning which ensure that a line remains drawn between transparent compromise and blind co-option (Eade 1993, p 161) as stated in (Edwards & Hulme, 2002)

Globally, NGOs collect hundreds of billions of dollars annually from donors and distribute/utilise these funds to beneficiaries after paying for their own administrative costs. Transparency is in the interest of the public, donor organisations and authorities. However, the sheer volume of transactions conducted by NGOs combined with the desire not to unduly burden legitimate organisations, generally underscore the importance of risk and size-based proportionality in setting the appropriate level of rules and overseeing in this area. (Bhargava, Radhakrishna & Manivannan, 2007). Financial accountability, transparency and good governance are the need of the hour in NPO's sector. It has been noted that as the financial and human resources employed in NPO's sector grow year after year, the need for proper financial planning, financial management and financial accountability is also increasing accordingly. (Kandasami, 2006). There have been long-ranging arguments regarding the financial accountability of the non-profits. Resource mismanagement is a particular problem with N**GO**s because the employees are not accountable to anybody with a direct stake in the organization. An employee may start a new program without disclosing its complete liabilities. The employee may be rewarded for improving the NPO's image, making other employees happy, and attracting new donors. Liabilities promised on the full faith and credit of the organization but not recorded anywhere constitute accounting fraud. But even indirect liabilities negatively affect the financial sustainability of the NPO, and the NPO will have financial problems unless strict controls are instated.As the nonprofit community experiences unprecedented growth and scrutiny, it becomes essential to establish and monitor sound financial practices that will ensure the appropriate use of resources in meeting their organizations' missions (Langan, 1998).

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