

SUMMARY OF RESEARCH: 'RELEVANCE OF FINANCIAL MANAGEMENT SKILLS IN THE DECISION TO FUND PARTNERS'

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1. Background

1.1 Over the last decade sound financial management has become more important to the structure of development agencies. This has occurred in response to increases in funding from bilateral donors, a greater emphasis on managerialism and professionalism, increased fund-raising competition, meeting donor demands and a trend towards decentralising larger organisations.

1.2 Every part of an agency is affected by this demand for professional financial management. Its impact is not only on an agency's internal financial systems, but also on how it interfaces with its partners. For example, the key decision of whether to fund a partner requires programme staff to have well developed financial skills. These skills include budgeting, assessing financial statements and systems, and being able to assess a partner's financial capacity. Certainly programme funding decisions should not be dictated by financial factors alone, but not to recognise these factors may lead to poorer decision-making and less appropriate support for the partner. Indeed if the funding decision-making was improved and more appropriate support given as a result of better use of financial techniques, it can be argued that programme effectiveness and its long-term sustainability would be increased.

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2. Methodology

2.1 A preliminary study was undertaken with the international programme staff of two United Kingdom-based development agencies, participants being drawn from a wide range of international locations. The aim of the study was to identify the relevance of financial management skills in the decision whether to fund partners. It aimed to identify:

- which financial skills were used in the decision to fund, and
- staff's own perceived level of confidence in analysing financial documents and systems.

The research was conducted by questionnaire.

3. Research findings – confidence in using documents

3.1 Of the international programme staff surveyed, 83% were directly involved in the process of funding approval. Over half of the respondents said they had worked in their current position for three years or less. 39% said they had received no financial training and 20% training of one week or less. Of the 20%, some respondents specified that this training had taken the form of a half or full day's course.

3.2 Over half those questioned said they advised partners in accounting or finance on a regular basis. One respondent commented 'we see our role (as programme officers) as developing capacities and skills of organisations in accounting and financial systems'. Asked how important accounting and financial documents and systems in their own initial decision to fund, 92% said that these issues *were* either *important* or *very important*. When asked how important these areas *should be* in influencing funding decisions, 100% said *important* or *very important*.

3.3 Staff were asked how often they received and used partners' financial documents and how confident they felt in analysing these documents. Budgets and 'budget and actual' reports were the most frequently received and used. 87% of staff questioned considered themselves to be either *confident* or *very confident* in using budgets; 82% in using

'budget and actual' reports. However, about a third said they actually used budgets and budget and actual reports *not very often* or *never*.

3.4 About two-thirds said they received and used cash flow forecasts (identifying when money will come in to and go out of an organisation) *not very often* or *never*. About one third said they were *not confident* in using this document.

3.5 Just over half of those questioned said they *often* or *sometimes* received and used other financial statements (e.g. receipts and payments accounts, income and expenditure accounts and balance sheets). 65% said they were either *confident* or *very confident* in analysing these statements.

3.6 The perceived confidence levels in using most documents appears to be high, but there is still a large proportion of programme staff who are not confident. Over a third of all staff said that they were either *not very confident* or *not at all confident* in analysing cash budgets, costing information and financial statements.

4. Research findings – working with partners

4.1 Other questions looked at programme staff's financial role in working with partners. They were asked about how often they assessed financial management within partner organisations and their confidence in undertaking this assessment. When asked about their overall confidence in advising counterparts on accounting and finance matters, 53% were *confident* or *very confident*, with 47% *not very confident* or *not at all confident*.

4.2 When asked how often they assessed that partners maintained adequate accounting records, 59% said they did this *often/on each visit* or *sometimes/on some visits*. 64% said they were *confident* or *very confident* in doing so.

4.3 Good financial systems prevent the risk of errors or misappropriation. When asked whether they assessed their partners' systems, 53% said they did this *rarely/not very often* or *never/not at all*. 51% said they were *not very confident* or *not at all confident* in doing this.

4.4 Overall, the high level of confidence among programme staff points to a professional approach by the two agencies and to the priority they give to the financial aspects of their programme staff's relationship with partners. The levels of confidence although high, still identify individual staff who lack confidence, especially in assessing the adequacy of partner's financial information and systems.

5. Improvement in the skill level

5.1 Staff questioned were asked 'do you think you need to improve your own accounting and financial skills?' 93% answered 'yes'. Given the confidence level outlined in the findings above, this percentage is surprisingly high. One respondent said that 'accounting and financial skills are one of the most important areas of my job that I feel I need to improve my skills in'. A small number of those questioned had already gained an accounting degree or a professional accountancy qualification. Some of those who answered 'no' to this question may have fallen into this category.

5.2 Staff were asked about their preferred method of improving their financial management skills. *Help from someone with experience* and *a short training course* received the highest rankings. *More practice* was third followed by the *availability of simple checklists* and the *availability of books and information*. The skills most frequently mentioned as needing improvement were:

- the interpretation of accounting statements
- bookkeeping
- financial systems and accounting records
- budgeting
- cash flow forecasting, and
- audit.

6. Conclusions

This was a preliminary study relating to two specific agencies. Further research is required to identify whether the findings are representative of other development agencies. The agencies large size may suggest that their programme staff are likely to have more developed financial skills than would be the case for staff in smaller organisations.

The following recommendations are drawn from the results of the research in order to help other organisations improve the financial skills of its programme staff:

- create opportunities for experienced financial and non-financial staff to share their skills with less experienced staff
- provide [training courses in financial management for non-specialist programme staff](#)
- develop simple checklists for common tasks (e.g. assessing financial capacity)
- make [information about accounting and financial management in a development environment](#) available to all programme staff.

7. Thanks

Thanks are due to all those who took part in the research.

John Cammack (john@johncammack.net) would welcome feedback from individuals or organisations with experience of these issues.