

Financial Analysis of Nivasa, an Architectural NGO

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ABSTRACT

NGOs face a competitive demand to deliver high-quality services before reduced funds. Good management contributes positively to their use of resources efficiently. Based on a review of previous studies, this research seeks to enrich the management literature by examining and empirically testing the impact of each of the financial management practices on the financial and non-financial performance of non-governmental organizations (NGOs) by taking Nivasa as a sample and comparing its various financial aspects. A questionnaire was developed and validated to measure management practices and the financial and non-financial performance of NGOs. The questionnaires were distributed to 50 different NGOs in Bengaluru working for different purposes to analyze different financial aspects. The paper examines the potential for financial practices to positively contribute to performance and facilitate organizational efficiency. This research paper summarizes the managerial and organizational problems of NGOs and the paper aims to suggest solutions to these problems.

Keywords- NGO, Nivasa, Financial Management, Questionnaire

INTRODUCTION

Over 6.5 crore people live in slums, poor housing conditions, and unfit habitats in India. Nivasa has been working tirelessly to provide housing facilities to construction workers, migrants, and below-average people housing facilities which is a basic need for all at affordable prices. Nivasa has done projects like Project Griha, the Construction labour community, Village redevelopment, Project suitcase, and Anganwadi to increase humanity and people's standard of living.

Management was defined by Weirich & Koontz as "the process of designing and maintaining an environment in which individuals, working together in groups, effectively achieve selected goals or objectives" (Weirich & Koontz, 2005). They also argued that management applies to all kinds of organizations. (Public, private, not-for-profit) and that regardless of the organization, the responsibility of managers is to plan, organize, staff, lead and control in such a way that a "surplus" is created by the authors (Weirich and Koontz 2005).

NGOs, because they are small, flexible, innovative, and participatory, are generally considered to be more successful in reaching the poor and in alleviating poverty. Since NGOs are supposed to be strategic organizations, they face more uncertainty in their environment than any other type of organization.

Nivasa was able to reach out to many people through the operations but the challenges they faced during the process are more. Providing housing facilities to people is more challenging as it involves raising funds, creating designs, and also gaining the trust of the village community which has a rigid mindset.

Like many NGOs, management of the fund, reducing expenses towards administration and raising funds, increasing the capacity of the human resources, and resource mobilization are the major problems of Nivasa.

Nearly more than 31 lakh NGOs are running their operations for different purposes of society. For-profit organizations' main objective is to earn profit but the outcome of the non-profit impacts. Different NGOs have different purposes, most non-profits face barriers to organizational growth that remain too high. They are also affected by various factors influencing the business environment. As a non-profit Nivasa also faced challenges but was able to grow as a 10-year-old NGO because of its management.

Financial management within NGOs also includes risk management and identification. The main concern of financial asset and risk management is the evaluation of techniques rather than the quantification of financial activities. Managers routinely use data available within NGOs to assess the performance of organizations' financial activities.

LITERATURE REVIEW

According to Steven (2005), the financial management guide should be fully utilized by anyone entrusted with the responsibility of dealing with grant management issues. In his opinion, the manual should also be used by those who are also involved in the preparation of grant proposals as well as recording and reporting on the activities of grant projects. The handbook is very important because it provides not only procedures for grant administration, but also practical information that would increase fiscal responsibility on the part of the guarantee organization.

The sustainability of resources in the non-profit sector is a key challenge for ensuring an effective non-governmental sector globally, which is important for economic prosperity. Financial sustainability is defined as the potential to generate resources from a range of sources that will reduce dependence on donations and grants for survival over time (Davis, 2007). According to Blazek (1996), organizations are required to offer the required collateral to grant assets, regardless of whether it is cash or in the form of assets, and at the same time, they should be used to perform their legitimate role. Based on their views, the system should provide such control that the duties to be carried out by workers within the organization are not carried out by a single person from the beginning of the transaction to the end of the project period, but it should be noted that complete separation of roles may not be viable in cases where a relatively small organization. On the other hand, it should be noted that effective control can also be achieved through proper planning in the assignment of duties (Simon, 2010).

According to Richard and Marie (2006), all grantees should always be audit ready and therefore this means that all records that relate to the project's financial activities should be readily available for audit purposes. In his opinion, any failure to provide the relevant document to the auditor will cast doubt on my result and the subsequent non-recognition of costs which may require the organization to return the money to the supporting organization.

As stated by Horngren, George, and Srikant (1997), it is important for an organization to establish a system that allows the financial situation of the organization to be reviewed on a monthly basis focusing on things such as expenditure, income, and revenue. The role of the Chief Financial Controller in an organization is to ensure that all financial controls in the organization are set up and followed by those concerned. Issues that need to be critically looked at include:

1. Ensure that all expenses are within the established budget.
2. Ensure that the expenses incurred are in accordance with the purpose requirement set in the budget.
3. All financial documents such as invoices, receipts and quotations are well collected and completed.

According to Kiir (2010), the main mistake NGOs make is that they depend on one funding source. Over-reliance on one source of finance made these difficult organizations to carry out their mandate and therefore programs are compromised or terminated in the long term. That is why the task that NGOs face now and in the future is and will be to explore other mechanisms to enhance financial stability without sacrificing the mission of their organizations.

According to Bob-Miller (2005), the contribution of local and international NGOs includes the transformation of entire communities and the elimination of poverty-stricken rural and urban populations. According to Bob-Miller, these include environmental protection, services for women, seniors, and children, professional skills, technology transfer, hygiene, water development, and the supply of humanitarian items.

Financial uncertainty affects NGO planning. It also forced them to seek more financial resources and adopt private sector-like methods such as downsizing. Take for example; the Lack of funding is forcing many South African NGOs to diversify away from donors. They are redefining their relationship with the state and the market, taking government contracts, selling services to the private sector, and charging user fees. Some have had to downsize and depend on short-term contract workers, while others are experimenting with their legal status and turning into "non-profit" companies. (Bornstein, 2003).

PROBLEM STATEMENT

Managing NGOs has the same level of complexity and professionalism required by any public or private organization. However, it differs from other organizations in that it needs adequate knowledge of legal and fundraising mechanisms typical of NGOs; in addition, members work voluntarily and independently of the principle of affiliation and are flexible - the main goal of NGOs of people in social services is to strengthen society and build social capital. Unlike private and public organizations, NGOs operate in a non-competitive environment. However, NGOs have a vision, a mission and a goal. Governance of NGOs is essential for accountability and good governance.

Managing NGOs is in many ways more complex than managing for-profit organizations. In for-profit organizations, their success or failure is judged by profit or loss. Business tactics, diplomacy and ruthless contests are some of the

techniques used to make organizations more efficient and productive NGOs around the world manage their organizational affairs through the process of 'learning by doing.'

Non-governmental organizations are faced with the problems of overall management of the organization, which includes all components of the organization, such as human resources, financial management, communication management, resource management, and operations management. Though they have lot of challenges, they have to focus on helping more people.

Many NGOs face problems with fund management, which subsequently force donors to completely stop funding their projects. There are challenges associated with managing finances, yet it is key to managing both income and expenses properly. In a situation where an organization is unable to successfully manage its finances, the organization may suffer from several problems such as excessive debts, which may subsequently lead to the bankruptcy of the organization. In seeking relief from financial management problems, organizations must ensure that all credit accounts are paid regularly and also ensure that records of income and expenditure are strictly maintained. The finance department of the organization in cooperation with other department should also plan all the expenses that are available. Among the problems associated with non-profit organizations when spending donor funds were cases of overspending and under spending of projects.

PURPOSE OF THE STUDY

- To analyse the working of non-government organizations by taking Nivasa as model
- To examine how NGOs management in different sectors like human resources management, finance management and operation management.
- To find out different barriers of NGOs when it comes to management

SCOPE OF THE STUDY

In this project, there are a number of limitations that prevented the achievement of the set goals and objectives. The first case is limited resources in data collection in both library and field research. Time was also a limitation in the process of performing this project between the start of the project and the submission of the thesis. The survey was conducted based on the respondents of different NGOs in Bengaluru and the outcome can be biased and not accurate.

RESEARCH DESIGN AND METHOD

Financial data –The final accounts of the year 2017, 2018 and 2019 were provided by Nivasa to do an analysis

Questionnaire survey

The questionnaire is defined as a self-reporting instrument that researchers use to gather relevant information based on the variables which are being investigated. In this case, closed-ended questions would be designed that would require answers narrowed down to the area of study, as there are options that are fixed to choose from. The total respondents of the survey were 50 NGOs. Questions related to financial management were asked to the NGO.

Study population- There are around 945 working NGOs in Bangalore working for different purposes.

Sampling techniques – 50 NGOs were selected as sample

Sample size – 22 and 24 according to hypothesis test

PRESENTATION AND ANALYSIS

There are three main statements that a non-profit normally prepares: Receipts and Payments Account, Income and Expenditure Account, and the Balance Sheet. These are then checked by the auditors, who issue a report. This is called an audit report. Audited reports of 3 years namely 2016-17, 2017-18 and 2018-19 were given by Nivasa. All NGOs usually use GAAP (Generally Accepted Accounting Principles) while maintaining the books of accounts to make it easy to understand. Nivasa also follows GAAP while recording its accounts.

NGOs are registered under FCRA for external funding/ foreign contribution which comes under ministry of home affairs FCRA regulates foreign donations and ensures that such contributions do not adversely affect the internal security of the country. The Act, first enacted in 1976 was amended in the year 2010 and then 2020.

Analysis of final accounts

Nivasa has been registered as a Trust since 2012. The NGO has an approved FCRA which is in compliance with the law including the latest amendments. Exemptions from the IT Act under sections 80 and 12A apply. The Trust is governed by an active Board of Trustees and led by a Chief Executive; The Board of Advisors also promotes technical and resource mobilization expertise. Audited reports of 3 years namely 2016-17, 2017-18 and 2018-19 were provided by Nivasa for analysis.

Project Expenses Ratio

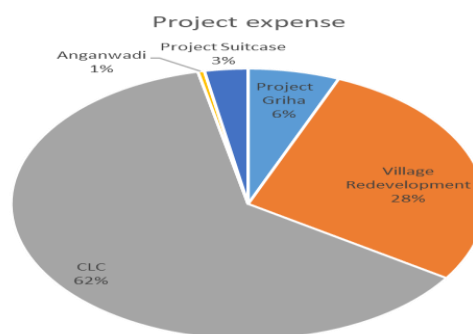
The program expense ratio measures the percentage of expenses a non-profit spends on its core mission. This ratio of non-profit organizations is crucial in the eyes of donors.

Program Expense Ratio = Program expenses / Total expenses

Years	2016-17	2017-18	2018-19
Ratios (%)	60	50	20

Major projects of the Nivasa are,

1. Project Griha - A District Wise Solution -Developing customized design solutions that consider local material, environment, socio-cultural sensitivities & economic activities, and dissemination of template to contractors, skilled workers and the larger community.
2. Construction Labour Communities (CLC)-Co-creating and encouraging humane and dignified living conditions for construction labourers.
3. Project Suitcase - The Portable Home-A toolkit of housing components for the urban landless homeless as a step towards permanent housing solutions.
4. Redevelopment of Villages- Supporting redevelopment of villages in a holistic manner where we contribute to design and help in execution of infrastructure and housing needs.
5. Anganwadi-Designing and executing a model Anganwadi, that can more than accommodate the children and their activities in its vibrant and lively spaces.



In the three years expenses together,

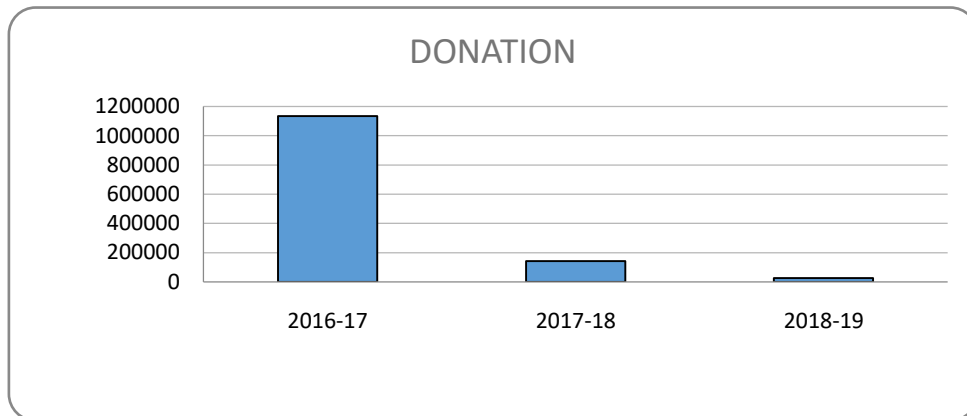
62% of expenses were towards the CLC project for providing the housing facilities to the construction labours. Construction accounts for almost 65 percent of total infrastructure investments. One labour camp serves as a "home" for around 1,000 migrant workers for 2-3 years before moving on to the next construction site. The current generic solution of GI sheets as walls and roofing does not qualify as a thermally comfortable and sociologically adequate solution. Nivasa work with developers and suppliers to create change with human dignity.

Almost 30% are spent on the redevelopment of villages. Architecture in India today serves only the financial elite. The cost of design and design thinking, very much needed for the poor they cannot afford. In this village development model, the donor pays for an architect who enables the poor to obtain professional inputs at no additional cost to his account. Use locally available resources like labour, raw materials and machinery.

Donations

For an NGO, one of the major sources of income is donations collected by individuals, companies or organizations. Donors' reports should be maintained by the NGOs in order to show the cash flow of the donated fund and also show the outcome of the fund. This may be reported annually or quarterly by the NGO according to the Donor.

Year	2016-17	2017-18	2018-19
Fundraising ratio	0.85	0.025	-0.16



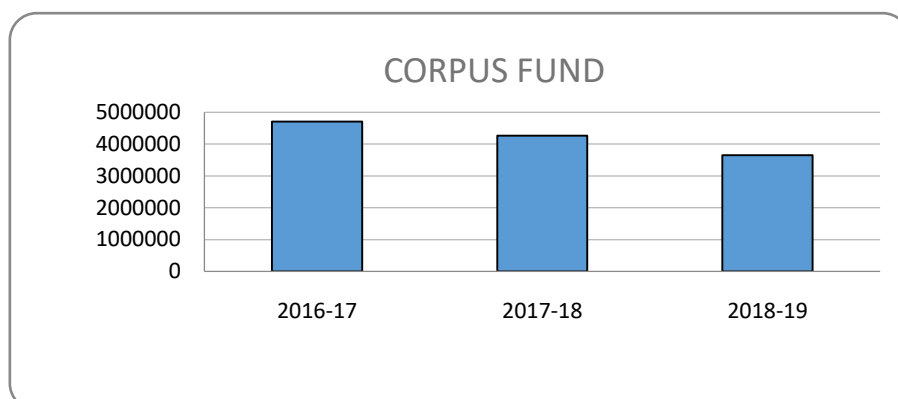
As non-profit organizations, NGOs face and overcome various challenges during their operations. Covid-19 has greatly affected Nivasaas a project-oriented NGO.

There is a lot of competition for donor resources, and in many cases securing resources depends on how well it can compete with other organizations in fundraising; and how good it is to look for other ways to get resources. These NGOs are fortunate to have sufficient resources and still face uncertainty regarding support for their current operations and future funding. Many organizations are questioning whether donors will continue to support program costs or focus on other, more pressing needs. Sometimes a donor goes out of business and can no longer provide resources. These are some of the scenarios that create uncertainty about donor funding and make it extremely difficult for NGOs to consistently plan and implement their project activities. When I analyzed the final accounts of Nivasa, I was able to see a drop in donations. Nivasa's fundraising capacity has decreased. They need to focus more on fundraising. Nivasa must try to get a sustainable source of finance.

Corpus fund

Corpus fund means capital, funds created and maintained for the existence and maintenance of an organization. A Corpus fund means a permanent fund kept for basic expenses required for the management and survival of the organization. 15% of the income or surplus of the organization can be transferred to the corpus fund. Nivasa follows a zero debt policy, where they retain few of their funds for the next year, as we can see donations have drastically reduced, and Nivasa was able to survive only due to corpus fund.

Working capital of Nivasa



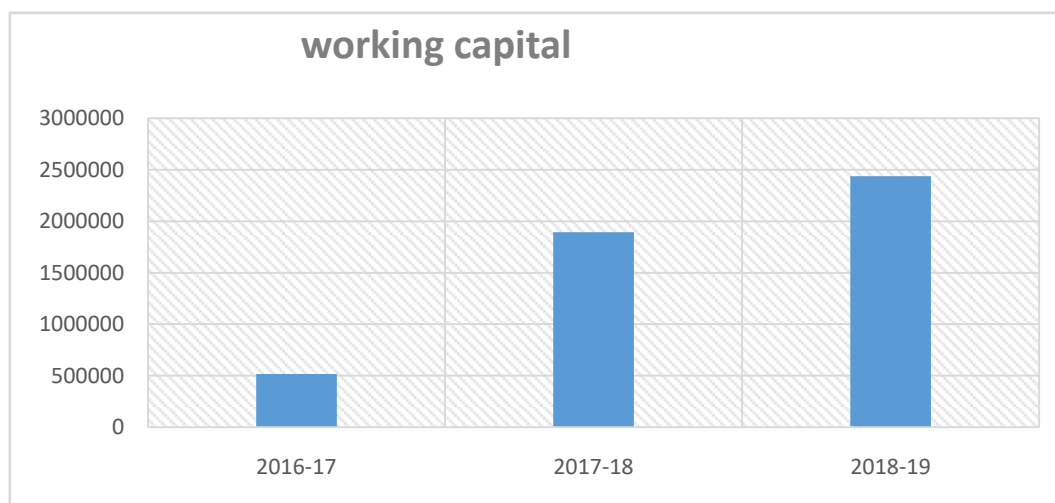
The financial conflagration that many non-profits face surrounds the concept of working capital, or the financial reserves that organizations keep on hand. Generally, contributors expect that any resources donated to a non-profit organization will be used to support the product or service the organization provides and will not sit idle in an account.

However, every company or organization needs funds to operate and provide the goods or services it offers, regardless of whether it is a non-profit or a for-profit organization. Many non-profits struggle to raise enough funds to support their goals, and many consider holding cash in reserve a necessity. Yet every year around the world, organizations suffer and collapse due to a lack of such reserves. The survival of these organizations depends on having sufficient working capital to sustain operations in the face of unexpected emergencies and economic downturns.

In the non-profit world, working capital is commonly referred to as "working reserve." In general, non-profit boards of directors, which oversee non-profit regulations, determine an acceptable amount that an organization can retain as unrestricted cash to maintain operations. Most non-profits have one to six months of cash on hand to cover all operating expenses.

These numbers are entirely dependent on the services or goods provided and the overall total revenue received and may change from year to year. Ultimately, every non-profit must establish and maintain its reserve.

Personnel Expense Ratio



The personnel expense ratio is a business indicator that relates the personnel expenses reported in the income statement to the overall performance of the company. The following formula is used to calculate it:

Share of personnel costs = Salary for expertise / Total Revenue.

Year	2016-17	2017-18	2018-19
Ratio	0.22	0.30	0.80

Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term liabilities or liabilities due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to meet its current debt and other liabilities.

Current Ratio=Current liabilities/Current assets

Year	2016-17	2017-18	2018-19
Ratio	1.09	1.4	1.6

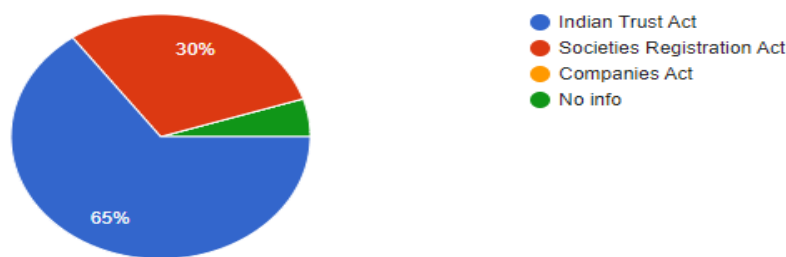
Financial Model of Nivasa

Financial modelling is a numerical representation of some or all aspects of a company's functioning. Financial models are used to estimate business valuations or to compare companies to their industry competitors. There are different models that can produce different results. A model is only as good as the inputs and assumptions that go into it.

OFFERING	PAYER	USER	Revenue
Product Architecture design	Government, other NGOs, Private Companies, CSR, Donors and sponsors	Underserved people, Construction workers, Migrate workers And Government and private users' requirement	35%
Service	Government and NGOS		35%
Solution	Government and NGOS		20%
Knowledge and Advocacy	Research Funders, Policy and Educational Institutes and Government	Architect researchers, student, field experts and government policy body	10%

Analysis of questionnaire survey

1. Is the NGO registered?

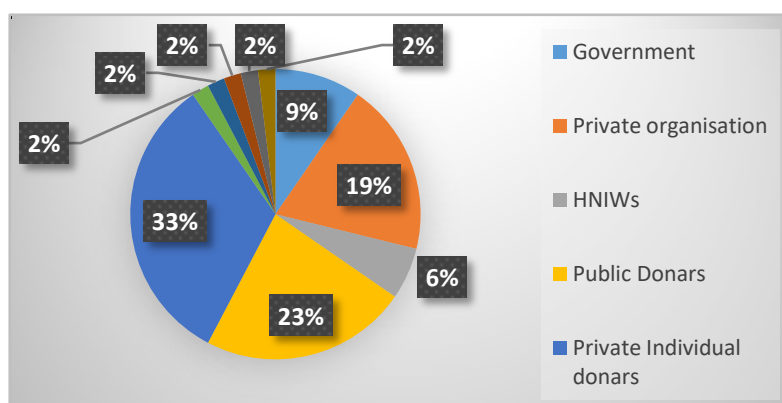


Most NGOs are registered under the Indian Trust Act, 1882 where a minimum of 2 members are required to form a trust. Trusts are created when a resident transfers any property and provides its benefits for the benefit of beneficiaries or for the public good. The main purpose of the person registering a trust in India is to use the trust property for the benefit of the community as a whole and to promote a charitable purpose called a Public Charitable Trust. Such a trust has no permanent beneficiary, but a large community, usually established in the same way. A trust cannot be revoked without court intervention.

The Law on Societies requires the creation of at least 7 members. The company owns the memorandum of association and its rules and regulations or bylaws. Company registration fees and processes must be registered with the Registrar of Society or Commissioner of Trusts appointed by the state government. The Company has the opportunity to change its MOA from time to time and to increase or decrease its goals and work. The company must notify the registrar annually of changes in the quorum of the company. The association can be terminated according to the termination clause in the Articles of Association, and upon termination the association will be merged with an association of a similar object.

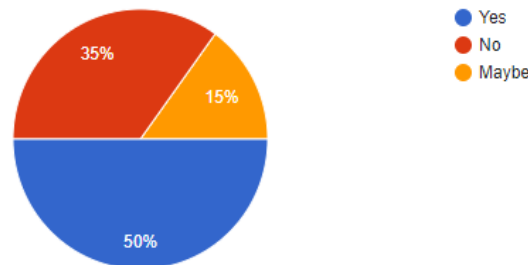
If the NGO has registered as a Section 8 Company, then the MOA and AOA form the legal document of the Section 8 Company. Registration of the Section 8 Company must be filed with the Central Government through the Companies Registry with the required approvals. The process is similar to setting up a Public Limited Co. or Private Limited Co. A Section 8 company is required to conduct annual compliance similar to other companies.

2. Sources of fund



As non-profit organizations, NGOs rely on a variety of sources for funding projects, operations, salaries, and other high costs. Because an NGO's annual budget can be hundreds of millions of rupees, fundraising efforts are essential for the success of the NGO. Funding sources include membership fees; sale of goods and services; private companies, for-profit companies; philanthropic foundations; grants from local, regional, and federal agencies, as well as foreign governments; and private donations.

3. Do NGOs have GST numbers?



GST is usually levied on the goods and services provided by the entity. GST could be applicable for some of the services and goods supplied by a Charitable Trust or NGO Charitable activities like awareness of environment, the well-being of people, etc. by a charitable trust or NGOs having 12AA registration is exempt from GST. Any other service provided by a Trust for consideration would be liable for tax under GST. According to the survey we can say that most of the NGOs have GST numbers.

4. FCRA Act registration

NGOs are registered under FCRA for external funding/ foreign contribution which comes under the ministry of home affairs

FCRA regulates foreign donations and ensures that such contributions do not adversely affect the internal security of the country. The Act, first enacted in 1976 was amended in the year 2010 and then in 2020.

H0- NGOs are registered under FCRA Act

H1- NGOs are not registered under FCRA Act

In this testing hypothesis, out of 50 respondents, only 24 respondents who had more experience were selected for the chi-square test.

	Observed (O)	Expected (E)	O-E	(O-E) ^2	(O-E) ^2 / E
Yes	10	12	-2	4	0.33333333
No	14	12	2	4	0.33333333
	24		Chi-squared value		0.66666667
LOS	5%	Df	23		
			Chi-squared critical value		35.2

In the table above, the expected frequency is assumed to be 50% of responses (50% of 24) and observed frequencies are 10 and 14. Hypothesis was tested at 23 degree of freedom and 5% level of confidence. The table shows the critical chi-square value as 0.67, while the calculated chi-square value was 35.2.

Chi-squared value is less than chi squared critical value.

Thus,

H0 is rejected

H1 is accepted

Therefore, we can say that many of NGOs are not registered under FCRA Act. Most of the NGOs are not aware of the FCRA Act, small NGOs mainly depend on raising fund at the primary level but does not know about foreign fund available if registered under FCRA Act

5. Does the NGO have a permanent accountant?

In this test of hypothesis, 23 respondents who had more than 5 employees were selected out of 50 respondents.

H0- NGOs have a permanent accountant

H1- NGOs do not have a permanent accountant

	Observed(O)	Expected (E)	O-E	(O-E) ²	(O-E) ² / E
yes	10	11	-1	4	0.363636364
no	12	11	1	4	0.363636364
	22		Chi squared value		0.727272727
LOS	5%	Df	21		
			Chi squared critical value		32.7

In the table above, the expected frequency is assumed to be 50% of responses (50% of 22) and observed frequencies are 10 and 12. Hypothesis was tested at 21 degree of freedom and 5% level of confidence. The table shows the critical chi-square value as 0.72, while the calculated chi-square value was 32.7.

Chi-squared value is less than chi squared critical value.

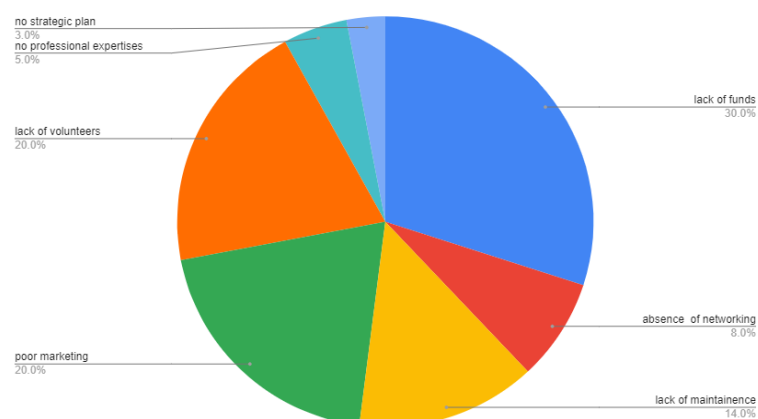
Thus,

H0 is rejected

H1 is accepted

Therefore, we can say that many of NGOs does not have permanent accountant. Most of the NGOs do not have a permanent accountant due various reasons like insufficient funds to manage staff, etc. In recent years, concerns about the role and responsibility of non-governmental organizations have been voiced from various quarters. As the World Bank (2005) noted, as the influence of NGOs grows, NGOs also attract greater public scrutiny, leading to calls for greater accountability. Some donors, governments, corporations and international agencies raise important questions about the effectiveness of NGO work and the legitimacy of their advocacy. Some NGOs have also recognized the need to secure good practice in the wider voluntary sector.

6. Challenges faced NGOs



NGOs are organizations that people look up to and may seem to have everything, but like others, they also struggle in more imaginable ways. Like many others, NGOs are not perfect and also go through a phase of trial and error. Therefore, when things don't go according to plan, it's important to always be prepared and come up with alternatives.

SUGGESTIONS AND RECOMMENDATIONS

Nivasa has many successful projects and has helped many underserved communities. Nivasa has to make attempts to reduce its expenses towards its administration. Nivasa has to make attempts to focus more on its product and service. Nivasa is following legal constraints like depreciation and tax payment. Nivasa should focus on raising its donations,

though they have enough corpus funds. Nivasa is working in the tin line when it comes to fundraising. It should also focus on proper cash management.

Understand the external environment – Organizations must critically understand and evaluate the external environment to understand the factors that affect their operations.

NGO Transparency and Accountability – Good reputation is associated with integrity, and the reputation of an organization and its individual players is its most valuable asset and greatest risk. It is common knowledge that the NGO sector in many countries is scrutinized by government, donors, the press and the general public, and creating and maintaining a good, credible public image in such an atmosphere of suspicion and cynicism is a huge challenge for many organizations.

Quality of financial management and accounting – Organizations having financial management systems that meet the standards required by external donors is another factor that contributes to an organization's ability to mobilize resources. It suits donors an organization that has clear financial reporting and audit arrangements and where there is adequate monitoring and allocation of costs to activities and results. Clear accounting systems for distribution and tracking of resources getting where they are due are things that donors appreciate. The contribution of valuing donor resources through the management, monitoring and reporting of resource use against agreed mechanisms often expressed in agreements is essential to maintaining good donor relations and forms the basis for potential ongoing resources and must not be overlooked. In the research I did, I was able to find out that most NGOs do not have a permanent accountant working with them. This shows that NGOs are ignorant when it comes to financial management.

CONCLUSION

An NGO's accounting books are different from a company's, the NGO's only income is donations, but its expenses are higher than its income. There are various legal restrictions that NGOs have to follow under FCRA Act, Income Tax Act and Government Legal Policy. The work of NGOs is complicated, but it will have a huge impact on the welfare of society.

Financial management is essential to the success of any organization, whether private, governmental or non-governmental. Successful businesses have a very detailed view of their finances and as a result make the right decisions at the right time, which ultimately leads to success. Most businesses have a well-organized finance department that is responsible for managing the company's accounts and finances. On the other hand, NGOs generally do not consider financial management a priority and lack sufficient financial knowledge.

NGOs often work hard to implement projects that address the needs of the disadvantaged, and in this case, they do not pay enough attention to financial management. This practice puts NGOs at risk of losing money. Without proper back-up programs and funding, NGOs cannot cope with funding constraints. So, NGOs should try to start with a permanent accountant and end up with sustainable funding.

Although the aim and mission of all NGOs are almost the same; however, their management system and approach to work are different. The main challenging issues in an NGO are usually financial matters, HR, management skills and internal communication. The second group of challenges falls into two subgroups and has either a national or international scope. Registration, relationship with government organizations, interaction with the private sector are the most important challenging issues at the national level; and religion, politics, internationalization and the financial crisis are key issues at the international level.

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