

# PRIMER

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**TOPIC:** FINANCIAL LITERACY, EDUCATION, AND CAPACITY

## DEFINITION & SITUATION

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Many charitable and non-profit organizations struggle to build (or retain) the internal capacity to effectively measure and understand their own financial situation. External professionals (i.e. accountants, bankers and lawyers – who are more likely found on Boards or providing advice) often lack experience working with the sector, and even the models and information systems generally available are more suited to businesses or larger scale government operations than for a diverse array of charities and nonprofits.

Conventional financial analysis (for example, audited Income Statements and Balance Sheets,) does not necessarily capture well the information required to manage or evaluate activities in many circumstances. Improving this capacity, particularly in terms of effectively understanding what terms like “performance”, “risk”, or “investment” mean in the charitable and nonprofit sector, and then developing new models more appropriate to the objectives and the evolving practice, has been identified as an area requiring more attention.

## SOME KEY CHALLENGES & ISSUES

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- **The complexity of relationships and diversity of activities undertaken in the charitable and nonprofit sector do not translate well into discrete measures or useful financial calculations that can be readily made, let alone compared or aggregated.** Despite this challenge, there is an increasing demand among funders, donors and the public for results within a framework that increases transparency, accountability and efficiency.
- **The revenue and costing models that have been successfully (or unsuccessfully) applied by different charitable nonprofit organizations are not well articulated, studied, or understood.** While more examples are emerging, few options exist for charitable and non-profit executive education, with many of the senior leaders in the sector having had little formal training in the area of financial management in particular.
- **An investment in formal systems and human resource capacity necessary for effective financial management is often beyond the resources available to many organizations.** Compounding this challenge is a limited willingness among funders to contribute to professional development or human resource training.
- **In order to develop new approaches it may be necessary to adapt existing financial models.** If the existing models for the sector are already not well understood, the “new” approaches run the risk of propagating existing issues or trying to tack “business thinking” on to an environment where it doesn’t fit. Models that can adapt to the changing needs of the sector and key stakeholders are also needed.

## SOME RECOMMENDATIONS

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- **Work with external professionals, practitioners and policy makers to develop more appropriate and customized approaches to financial management for the charitable and nonprofit sector.** This may include engaging provincial regulators

who primarily oversee the administration and structure of non-profit organizations, and CRA which oversees the charities. Lawyers, accountants and other financial professionals (including evaluators) can be important allies in this process, but any changes should be reflective of the experience from practitioners within the sector and recognize pragmatic requirements for organizations with limited resources.

- **Support financial intermediaries, organizations and educational institutions to develop and make accessible programs, tools and curriculum related to financial management for charities and nonprofits.** This content should include professional development for current practitioners while also including broader educational opportunities for the next generation of nonprofit leaders.
- **Encourage sharing of information, mentoring and exchanges among financial (or other) staff within different organizations.** This may also include funders and government, providing opportunities to broaden the understanding based on more direct experience, and developing new relationships across and among organizations.
- **Work with funders (and Boards) to validate expenses on financial administration and systems as an important part of the cost structure.** These investments should ultimately lead to greater efficiency, effectiveness and transparency in the interest of all stakeholders involved.

### **SOME LEADING QUESTIONS / POINTS FOR FURTHER DISCUSSION**

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1. What are the different roles / responsibilities of funders, regulators, professional associations, sector groups, educational institutions or the organizations themselves in the type of changes required?
2. How do we deal with the range of activities and results that are inherently more qualitative and difficult to measure, but remain integral to the operations of organizations and have very tangible financial costs?
3. Can the sector bring enough pressure on the conventional infrastructure in place to avoid “just becoming like businesses” and maintain the differences that are essential for long term success in the sector while developing more blended approaches?
4. How can charities and their funders work together to put in place more appropriate financial principles and more innovative practices for measuring the paybacks to the community?

### **SOME ADDITIONAL RESOURCES**

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- Imagine - [http://library.imaginecanada.ca/resource\\_guides/accountability/financial](http://library.imaginecanada.ca/resource_guides/accountability/financial)
- Nonprofit Finance Fund (US) - <http://nonprofitfinancefund.org/finance-essentials>
- National Coalition of Voluntary Organizations (UK) - <http://www.ncvo-vol.org.uk/>
- The Management of Nonprofit and Charitable Organizations in Canada, 2nd Edition <http://www.lexisnexis.ca/bookstore/bookinfo.php?pid=1327>
- Voluntary Sector Knowledge Network [www.vskn.ca](http://www.vskn.ca)
- Accounting Standards Board – Chartered Accountants of Canada <http://www.acsbcanada.org/strategic-planning/not-for-profit-organizations/index.aspx>
- Financial Fitness Toolkit for Non-profit Organizations <https://www.vancity.com/MyCommunity/Library/NotForProfit/>
- Community Forward Fund, Judging charities’ performance: Time for new ideas, by Judith Maxwell, [http://www.communityforwardfund.ca/?page\\_id=42](http://www.communityforwardfund.ca/?page_id=42)