

**ActionAid International**

Taking Stock II  
Finance Review  
By  
Alex Jacobs



## **Taking Stock II, Finance Review:**

### **Finance Teams' Contribution to Fighting Poverty Together**

Alex Jacobs, Mango, July 2004

#### **1 Executive Summary**

This report was researched and written in a short period. It focuses mainly on Country Programme operations and on the support provided to them by ActionAid International. Field research was carried out in: ActionAid Ethiopia, ActionAid Kenya, ActionAid India, ActionAid International and ActionAid UK.

During the process of researching this report, I had the privilege of meeting many inspiring and deeply committed individuals and I am very grateful for these opportunities. Many of these ideas are theirs. Unfortunately, it was not possible to carry out a full analysis of regional structures and horizontal working teams within the time available.

Internationalisation will continue to make the issues and trends identified in this report more pronounced and urgent.

#### **1.1 Organisational context**

The aim of all the finance teams in ActionAid is to help the organisation work responsibly towards its mission. So the first two sections of this report provide a short description of how the organisation works to put its mission into practice. This is analysed in terms of two questions: "What is ActionAid trying to do?" and "How is ActionAid organised to do it?"

These sections provide important organisational context for all the rest of the report. Their key conclusions are:

- At the community level, ActionAid delivers a mixture of service delivery and rights-based work. At the national and international levels, ActionAid is involved in a growing amount of advocacy work.
- ActionAid is not and cannot be a tightly managed organisation. It relies on staff using their own judgement, within certain parameters. At its best, this is put into practice through decentralised, empowering organisational structures which support high quality decision making at the local level.
- ActionAid has taken significant and impressive steps to create these structures and support this way of working. One enabling factor (among many) has been the availability of unrestricted funds at the community level over the medium term – provided by Child Sponsorship. But the way of working is not consistent across the organisation. It is still fragile and faces many risks.
- There is still some conceptual confusion in the organisation, particularly around the importance of decentralisation and the implications of fighting poverty together by changing structures of oppression rather than working on welfare issues.

- Staff are bound together by a shared commitment to ActionAid's values (rather than by management structures, for instance). So staff can be encouraged to work more responsibly through mechanisms including: developing their commitment to ActionAid's values, and values-based leadership within the organisation. There are some outstanding examples of values-based leadership in the organisation.

## **1.2 Finance teams' roles and responsibilities**

Within this brief organisational analysis, finance teams can be seen as having three main roles:

- a) Guarding the agency's financial integrity,
- b) Supporting responsible local decision making,
- c) Supporting financial planning.

This is an adaptation of the three core roles set out in ActionAid's Finance Strategic Plan. It provides a useful structure for organising the main themes in the full report. It may not be a complete or definitive categorisation of all finance teams' work.

### **1.2.1 Guarding the agency's financial integrity**

The first crucial step for any organisation is to ensure that it controls the use of its resources.

ActionAid operates with a high level of financial control. This is a major achievement in such a dispersed and varied organisation. It is the result of a structured approach including the following steps:

- A clear statement of operating standards, based on ActionAid's values (for instance, one standard used by ActionAid Kenya is "zero tolerance for corruption"; others are set out in finance manuals).
- Sufficient resourcing for finance staff to put those standards into practice, at both the central and the local levels.
- A respected and effective mechanism for checking whether standards are met in well-resourced Internal Audit units.
- A system for taking action to follow up poor performance, including both capacity building activities to improve financial skills and the credible threat of withdrawing funding.

It may be possible to adapt this approach to support the implementation of other organisational priorities, such as gender or Alps.

Upwards accountability is one aspect of financial integrity. There is a well established flow of financial information from Country Programmes to ActionAid International. This allows ActionAid International to meet its statutory requirements and to maintain an overview of the organisation's financial position.

## 1.2.2 Supporting responsible local decision making

ActionAid depends on the key organisational principle of decentralisation: helping programme staff to make high quality judgements at the local level.

Finance teams have a crucial role to play in supporting responsible local decision making. This is the first way that they can make their central contribution of helping ActionAid to meet its responsibility to achieve as much as it can with the funds it has available. (The second way is through financial planning, discussed below.)

Many Country Programme and Regional finance teams have developed creative and effective initiatives to do this. For instance, training courses have been run for non-finance managers; tools have been developed to assess partner organisations' financial management capacity; capacity building accountants have been employed to strengthen partners' financial management and new methods of increasing financial accountability to local communities have been developed.

Many of these initiatives are at the fore-front of development practice. They are difficult things to do and are implemented sensitively and supportively, adapted to local circumstances. As a result, they add real value to ActionAid's work and help staff and partners get to grips with the unavoidable realities of handling finances. In these cases, financial issues work effectively to support the process of development and build trust between collaborators – rather than to hinder it as can easily happen.

However, some Country Programmes have not made as much progress. The two key factors which seem to determine how much progress has been made are: the level of engagement of the Country Director with financial issues and the level of engagement of the Head of Finance with development issues.

Finance staff have a particular role to play in supporting decentralisation and empowerment: within the organisation, they can either reinforce or cut the link between power and money. This is very different to many organisations' ways of working: in the commercial world, finance staff may act as a brake or control on operations. Finance staff joining ActionAid may need more help getting to grips with this basic conceptual aspect of their role.

However, because ActionAid is not tightly managed and because of the variety of its different operating environments, finance staff can only be *encouraged* to support responsible local decision making, not *told* how to do it. Two key mechanisms for achieving this within the organisation are:

- Taking active steps to sustain finance staff's commitment to ActionAid's values and their direct engagement with poor and marginalised people.
- Providing values-based leadership to help finance staff translate that commitment into constructive, practical activity.

One of the best ways of sustaining commitment to ActionAid's values might be to encourage *all* finance staff across the organisation to spend time with local communities (perhaps two weeks every year).

It may be useful to recognise the pivotal role of values-based leadership more explicitly within the organisation. Staff at all levels have to be encouraged to understand ActionAid's values and analysis of the world and to take responsibility for putting those values into practice. This is as true for finance staff as it is for programme staff. The report makes a number of suggestions about how this issue could be approached in practical terms.

It would also be possible to provide more tools, materials and examples of good practice for country level finance teams: both in terms of inspiring their own teams and also in terms of supporting programme staff. For example, more could be done to share good ideas and good practice between Country Programmes.

However, as a bare minimum, Heads of Finance must provide regular management information to management teams.

Some finance staff are rightly concerned that some programme decisions do not make the best use of the resources available. The report argues that the most effective contribution that finance staff can make to responsible programme decision making is by providing an accessible account of project-level expenditure to local communities.

This would ensure a level of concrete accountability to local communities: they are the people who understand the context of programme decisions and have the biggest stake in their quality. It would actively support the organisation's core activities and way of working rather than pulling against them (as centralised accountability risks doing). It also fits strongly within Alps and builds on existing initiatives.

Ideally, this would be done within the context of on-going discussion of financial issues between ActionAid staff and local communities as a part of the dialogue required for good development practice. However, it needs to be done carefully and sensitively. It may require finance teams to develop new skills.

Finance teams could also do more to help programme staff make good judgements in the first place. For instance, they could make key concepts (like budgeting, assessing and strengthening partners' financial systems, cost control and value-for-money) relevant and accessible to programme staff and provide them with training and support in putting them into practice. Again, this may depend on finance staff developing new communications and coaching skills.

In summary, finance teams can be standard bearers in applying ActionAid's values to the internal organisation: decentralising, empowering and fighting bureaucracy. A lot has been done; but a shift in mind-set could still be completed.

### **1.2.3 Supporting financial planning**

The second way that finance staff contribute to helping ActionAid achieve as much as it can with the resources it has available is by supporting financial planning across the organisation.

This is difficult for all NGOs. It involves understanding what funds are available for different programmes and allocating those resources to specific activities or areas of work. It also involves considering what level of reserves to maintain.

On the income side, ActionAid's finance staff play a central role in helping to forecast the mix of different kinds of revenue available for ActionAid. This includes: unrestricted funding (Flexible Funds), National Funds, Development Area (DA) Funds and funds that are restricted for use on a single specific project (some official funding).

But it is often difficult to allocate different types of funds to the range of different potential activities that could be carried out in the future. Finance staff have an important role to play in helping fundraisers and programme staff understand the different configurations of income and expenditure that are possible. For instance, it may be possible to work out a prioritised list of projects which are suitable for restricted funding – although this may be more appropriate at the national than the international level. It may also be possible to reclaim more core costs and overheads from restricted funds through careful proposal writing.

An even harder aspect of financial planning is working out how to allocate the resources that are available to different activities. This depends on comparing the impact that ActionAid could have through different interventions and the needs of different social groups. Neither of these factors can be quantified, so comparisons are difficult. In practice, a number of different criteria are considered for each decision. These decisions take place as internal negotiations between competing demands for resources.

One important factor in resource allocation decisions which may not be explicitly recognised at the moment is the personal response by staff to the suffering of people they meet.

The issue of cost analysis is closely associated with the issue of resource allocation. ActionAid aims to describe its work in financial terms. However, it struggles to find a type of analysis which provides a reliable and practical description to support resource allocation decisions and focus management attention on the heart of what the organisation is trying to achieve. (In comparison, this is a piece of cake for many commercial organisations.)

The funding mechanism of Child Sponsorship has been used to make a lot of resource allocation decisions for ActionAid. New sponsors may have been allocated at regional level. At national level, the mechanism automatically allocates funds to a specific community over the medium term.

This situation is currently changing. As the organisation receives more income from different sources (including Next Steps income and official donors), it will have to make more resource allocation decisions. The current limited use of Next Steps income shows how hard this can be.

This change represents a major shift in the operating environment at the Country Programme and international levels. It is also a major risk to ActionAid's

decentralised way of working – both because funds may no longer be available for the use of specific communities for years on end and also because there is a risk that new mechanisms for resource allocation may increase the organisation's bureaucracy.

The areas of resource allocation and cost analysis need urgent attention within ActionAid. This report provides some initial reflections on these issues, including a consideration of the criteria currently used in resource allocation decisions, an analysis of current approaches to cost analysis and a suggestion that it may be possible to develop process indicators to describe whether it is likely that high quality local programme decisions are being taken.

The issue of reserves is currently being looked at within ActionAid. Substantial sums are held at different levels, from the DA to the international. These provide financial insulation from many risks to many activities. But, large amounts of reserves are highly restricted in their use – in particular, as a result of Child Sponsorship. It would almost certainly be useful for ActionAid to consider ways of decreasing the restrictions on reserves.

### 1.3 Summary of key recommendations

No.	Section	Recommendation
1	3.3.4	ActionAid should consider what practical steps it can take to help staff understand the key conceptual issues which define what the organisation is trying to achieve.
2	4.2.1	ActionAid should consider developing simple communications messages to help staff keep the key organisational principle of decentralisation at the fore-front of their minds.
3	5.2.1	ActionAid should consider how to inspire Country Directors and Heads of Finance to provide leadership for their teams which encourages finance staff to be actively involved in programme work.
4	5.2.2	ActionAid should consider carrying out more research on the services that finance staff provide to national teams and the numbers of finance staff employed in different Country Programmes.
5	5.2.3	ActionAid should consider piloting the step of making finance staff responsible for financial accountability to local communities.
6	5.2.4	ActionAid should take active steps to encourage all Heads of Finance to recognise and meet their responsibility to provide useful management accounts to senior management teams every month.
7	5.2.5	ActionAid's finance staff should consider how they can help staff and managers to make resource allocation decisions.
8	6.2.1	ActionAid's International Finance Team should consider how it can inspire Heads of Finance to provide the kind of leadership to finance staff that encourages them to live out ActionAid's values in all of their work and to support the decentralised way of working.
9	6.2.3	ActionAid's International Finance Team should consider whether and how it could develop simple, accessible ways of communicating the organisation's key financial standards, principles and structures.
10	7.2	ActionAid's finance staff should consider how they can contribute to recognising and managing the risks associated with different sources of funding.
11	8.2	ActionAid should consider including a proportion of staff costs and central office overheads in Development Area level accounts of project costs and including this in any public statement of project costs.
12	8.3.1	ActionAid should consider what financial information it can collect at the national and international levels that actively supports what ActionAid is trying to achieve and how it is organised to achieve it.

Alongside these key recommendations, practical suggestions and minor recommendations are made throughout the main report.

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I would like to thank all of the inspiring people who I have had the privilege of working with during this review.

ActionAid's staff have shared years of reflection and experience generously and self-critically. I have had the opportunity to meet members of local communities and of ActionAid's partner organisations who were willing to spend their time discussing personal issues and their work with me. These were important and humbling experiences. My Taking Stock colleagues have also been a source of inspiration.

Many of the ideas in this report come from the people I have met over the last two months. In turn, I hope that the report provides some sort of return to them. Any mistakes or failings in it are entirely mine.

## 2 Introduction

Over the last five years, ActionAid has made enormous progress in developing its aims and in organising itself to meet those aims. This is true at all levels, including within finance teams. A series of impressive gains have been made and ActionAid currently embodies some excellent ways of working.

However, there remains a lot more to do. Progress has been variable across the organisation. Finance teams could do substantially more to support the fight against poverty.

This report starts with a discussion about the nature of ActionAid's work under Fighting Poverty Together<sup>1</sup>. This is important because it sets the context for everything that follows about financial issues. The roles and responsibilities of finance only make sense in relation to ActionAid's overall goals and ways of working.

So, this review is structured:

Section Number	Subject
3	ActionAid's core activities
4	ActionAid's way of working
5	Country finance teams' roles and responsibilities
6	International and regional finance teams' roles and responsibilities
7	Income
8	Cost analysis
9	A note on internationalisation

Each section includes a short review of achievements and areas for further consideration. Where appropriate, recommendations are made about specific issues which ActionAid staff may find it useful to reflect on.

The structure of the main report is different from the structure set out in the Executive Summary. The Executive Summary tries to set out the main themes of the report in a coherent and digestible format. Writing it was a very useful process in developing the analysis of the report: unfortunately there has not been time to go back through the main report in detail to reflect these developments.

ActionAid is a complicated organisation which spans many different countries and contexts. It is difficult to draw together a single view of all of its aspects. While many other documents have been read, this review is unavoidably biased towards the experiences of the particular Country Programmes visited: ActionAid Ethiopia, ActionAid Kenya, ActionAid India, ActionAid International and ActionAid UK.

Throughout a lot of the process of Taking Stock II, I have been involved in reviewing non-financial issues. I have had the privilege of contributing to debate on basic issues including the rights-based approach. I hope that this may be reflected in some of my colleagues reports. Unfortunately, within the time available, it has not been possible

to develop a full understanding of regional teams or of horizontal working groups. These issues are discussed more fully in other Taking Stock II reports.

Finally, many other NGOs are reflecting on similar issues of their own evolution. There may be scope for real mutual benefit from sharing these reflections within the NGO community. ActionAid could make an important contribution by making the Taking Stock II reports available to its sister agencies. It may also be useful to consider how more interaction and debate could be encouraged between NGOs as a way of taking forwards the issues raised in the Taking Stock process.

### **3 ActionAid's core activities**

It is important to look at finance in the context of Fighting Poverty Together: the roles and responsibilities of finance only make sense in relation to ActionAid's overall goals and ways of working. Two examples will help set this context for the rest of the report.

#### **3.1 Rights-based work**

As other Taking Stock II reports describe, ActionAid has made a great deal of progress in implementing a Rights Based Approach to its development and emergencies work. Around the world, ActionAid has helped many poor and marginalised people to fight oppression and injustice.

##### **Example 1: The Sugar Campaign, Kenya<sup>2</sup>**

Approximately five million people in Kenya depend on small-holder sugar production. In 2001, the industry was in crisis: small-holder farmers had not been paid for their crop from 1998 – 2001 and the IMF had concluded that small-holder sugar farming was not economically viable in Kenya. Power in the industry lay with six sugar factories, which were seen to be vehicles for political patronage. A Sugar Bill was being considered by parliament, which would have institutionalised existing arrangements.

Along with other Kenyan civil society organisations like the Centre for Governance and Development, in 2001 ActionAid played a leading role in organising and supporting Sucam: The Sugar Campaign for Change. Sucam's mission is "to promote the development of a viable and efficient sugar industry that will ensure that sugarcane farmers in Kenya enjoy a life that is just, fair and free of poverty".

Sucam has been an energetic, adaptable and influential lobbying body. It has created and exploited opportunities and has achieved impressive results, including:

- informing smallholder farmers about the structure of the sugar industry and the Sugar Bill;
- successfully lobbying MPs to amend the parliamentary bill to include producer representation on the regulatory authority (the Kenya Sugar Board);
- encouraging farmers to vote their own representatives on to the Kenya Sugar Board;
- campaigning against cuts in the price paid to farmers for sugar cane and cheap sugar imports into Kenya.

Sucam has learnt major lessons and has faced serious difficulties over the past three years. While expectations for change have been high, it has taken time for farmers to see the benefits of structural changes. Farmers will have to continue to fight to defend their interests, while all the time handling the spectre of internal political division. However, back payments for previous years' crops are now being paid. Sucam is continuing its work, focusing on 10 priority areas.

There is no doubt that Sucam has started the process of unlocking a major structural constraint for millions of poor Kenyan farmers and their families. This may not be enough to solve poverty. But it has changed the balance of power so that small-holder farmers can fight for their right to a fair reward for their labour and against oppressive national policies and institutions which deepen their impoverishment.

Excluding staff time, Sucam's direct costs were approximately £40,000 for the eight month period October 2001 to June 2002 (the period of lobbying for the parliamentary bill and electing Kenya Sugar Board representatives). This was largely spent on media and communications work to support lobbying and civic education.

As set out in Example 1, Sucam in Kenya is an impressive example of effective rights based work. It has engaged with power structures which create and deepen poverty, achieving substantial change at a relatively modest cost. Over the last five years, ActionAid has initiated and supported many similar rights based activities around the world.

However, it is important to recognise that the gains achieved by Sucam to date represent a continuation not an end to farmers' struggle. They are not sustainable in and of themselves.

This example raises a number of issues which will be considered in this report, including:

- How ActionAid is organised to increase the chance that it initiates or supports other similar, successful projects.
- The role of the finance department in supporting this way of working.
- Cost allocation and cost-effectiveness.

In addition to local and national rights based work, ActionAid also carries out **international work**. This aims to influence decision-makers such as donor governments and international organisations to take account of the interests of the poor. It involves activities including: researching international linkages, popular campaigning and lobbying at the national and international level (for instance, the WTO Ministerial Conference at Cancun).

These activities are not discussed in detail in this report: an embarrassing failing. However, the key principles of applying a values-based approach to finance work also apply to international work.

### 3.2 Service delivery

ActionAid continues to implement or fund a large amount of service delivery work. This work does not tackle the structural causes of poverty. But it can make an important contribution to helping discrete social groups to alleviate poverty's symptoms. In the extreme case, this could mean providing food to people who are hungry or education to people who lack access to schools.

### **Example 2: Urban Disadvantaged Children, Dessie, Ethiopia**

“Forum on Street Children – Ethiopia” (FSCE) is an Ethiopian NGO with a nationwide reach, originally set up to support orphaned and abandoned children following the 1984-85 famine. ActionAid is supporting their programme in Dessie, a large town 250km NorthEast of Addis Ababa.

The programme's full title is “Dessie Community Based, Child Focused, Integrated Urban Development Programme”. It aims “to solve the problems of urban disadvantaged children” through five broad areas of work:

- Advocacy – working with the police to develop Child Protection Units and encouraging greater awareness of children's rights.
- Saving and credit schemes – providing small loans to women-headed households, aiming to strengthen families and keep children at home.
- Education – setting up Access centres to provide non-formal basic education; running tutorial classes to support formal education.
- Health – providing health education to children in and out of school.
- Gender – supporting girls clubs in schools and other specific women's empowerment initiatives; a cross cutting theme for all activities.

The programme has had a significant impact on the lives of many poor and marginalised people. For example, it currently provides credit to 321 women and education through Access centres to 849 children. Girls are challenging patriarchy, for instance taking on student-leadership roles at school. The girls clubs have 1,126 members and substantially more girls are going on to further education than were previously.

Child Protection Units have been established at two of the town's four police stations. The Regional Police Commission has agreed to institutionalise the child protection programme across a significant administrative area and child protection has been added to the Federal police training curriculum.

FSCE has worked closely with the government administration, which is highly politicised and extends down to blocks of 20 households. As well as delivering services, they have mediated between communities and the administration and involved administration officials in programme activities.

ActionAid's main input is financial. ActionAid also provides technical advice and support, for instance introducing Participatory Review and Reflection methods which are seen to have strengthened the programme.

The programme started in 1997. ActionAid and FSCE have agreed to phase out their support in 2005. Different institutional homes have been found for the different activities, such as the local education administration for Access centres.

The programme is funded through 2,500 child sponsorship links from Spain. Annual expenditure in 2003 was £152,000.

As set out in Example 2, ActionAid is supporting service delivery that is helping marginalised people to work their way out of poverty. It is an effective approach to tackling the conditions of poverty, while not addressing its causes.

This service delivery work is normally too expensive for replication at a national scale and risks displacing or competing with government services. ActionAid continues to run these projects for valid reasons including:

- Before Fighting Poverty Together, ActionAid supported or implemented many integrated development projects which cannot all be shut down quickly.
- Governments may lack the capacity and/or the will to deliver appropriate services to poor communities. People still have urgent needs that may not otherwise be met.
- Service delivery work provides an excellent foundation to rights based work, building up trust and understanding between communities and NGOs. The two approaches are complementary.

This example raises a number of additional issues which will be considered in this report, including:

- The difficulty of distinguishing service delivery from rights based work. (The project has strong rights based elements, such as working with authorities to recognise and protect vulnerable people's rights.)
- The difference between ActionAid's role in supporting partner organisations and in implementing programmes directly – and the implications this has for ActionAid's internal organisation.
- Resource allocation and comparing impact between projects.

### **3.3 Issues for further consideration**

The strengths and weaknesses of ActionAid's rights based work are discussed at length in other Taking Stock II reports. One clear finding is that ActionAid has made huge progress in the last five years; but the quality of ActionAid's work continues to vary. Some is excellent, some lacks depth or breadth.

The key issue discussed here is conceptual clarity about ActionAid's work. It is useful to crystallise *what* ActionAid is trying to achieve before considering *how* it aims to do it. This may be more clear at the centre of the organisation than in Country Programmes and their field offices.

ActionAid is still completing its internal transformation to the rights based approach. Many aspects of service delivery work still survive – both in practical terms and also in conceptual terms. ActionAid should and will continue to implement service delivery programmes. But it needs to clarify its thinking in relation to rights based work.

The three conceptual issues mentioned below each have direct implications for how ActionAid sees it work and how it is organised to carry out that work.

### **3.3.1 Structures not issues**

The rights based approach requires engagement with power structures which deny people their rights. The starting point for a rights based analysis must be a description of the process of oppression – rather than the results of oppression. The process of oppression is structured by powerful institutions operating in overlapping spheres of influence, stretching from the family, to the locality, to the district, to the national, to the international level. The results of oppression may be lack of access to health care, food or education.

It may be useful to describe ActionAid's work in terms of helping specific social groups to engage with specific oppressive institutions. This would be a significant change from descriptions based on general groupings (for example, the non-geographically specific poor or people living with HIV/AIDS) or descriptions based on general issues (such as education or healthcare).

For example, the general issue "gender" could be re-stated as the specific process of fighting oppression: "fighting patriarchy". This might reduce the chance of confusion around what "gender" actually means and what activities "gender work" entails.

International level work has a crucial role to play, for instance to research linkages and to share experience and learning. But the same social problems may result from very different structures of oppression. So, identifying general issues at the national or international level may not help fight oppression. In fact, focusing on general issues risks diverting attention away from an analysis of power.

One implication of this is that issue-based work at the international level needs to be approached carefully. It has an important role to play, where there are international linkages. But the state remains the key structure of social organisation and regulation. There are often important ways that international collaboration can add value to national struggles. But these should not be automatically assumed; international working groups need to demonstrate that they offer real benefits.

There are also other implications. For instance, describing work at the national level in terms of issues may blunt the power analysis necessary to achieve change. It may be more comfortable and more appropriate to present work in terms of issues to some external audiences. But internally, ActionAid could still sharpen its recognition of what it is trying to achieve so as to describe its basic analysis and goals.

Finally, it may be worth reflecting on what justice means: not just passing laws but seeing them implemented; not just paying lip-service to equality but seeing people treated with respect and dignity. As every feminist knows, these are very long term changes which require sustained pressure and activity to achieve. ActionAid cannot achieve them on its own, but can make a contribution to broader movements.

It may be necessary to focus on a limited number of oppressive structures and work on them over a sustained period of time. There is a risk that more initiatives are

launched than can be sustained. For instance, ActionAid India recently counted that it is currently engaged with around 70 different policy issues.

### **3.3.2 Empowerment not welfare**

The process of supporting empowerment is different from the process of providing welfare services. It may be useful to describe the process of empowerment as involving: organisation, information and confidence:

- ‘Organisation’ is about supporting the organisation of poor and marginalised people so that they can assert their rights together.
- ‘Information’ is about helping people gain information about the structures that are oppressing them and what they can do about them.
- ‘Confidence’ is about helping marginalised people believe that they can act to change their position.

ActionAid’s role in supporting empowerment is very different from its role in service delivery. Both activities may involve working with partner organisations. But the goals of one may be to contribute to building representative organisations or movements. (For example, REFLECT is an excellent methodology in achieving this.) The goals of the other may be to maximise short term service delivery.

So, it may be useful to consider how ActionAid’s work with partners can explicitly aim to strengthen organisations of poor and marginalised people. In the case of Sucam a compromise had to be reached between meeting short term lobbying goals and longer term movement building. The lobbying was successful; the movement building less so. This longer term issue of small-holder farmers’ organisation is crucial to defending and building on the gains achieved to date.

### **3.3.3 Partnership not implementation**

In general, staff recognise that ActionAid normally works by funding partner organisations. However, work is often described as though it was directly implemented by ActionAid. For instance, staff may casually say “ActionAid is working with sex workers in town X” when in fact ActionAid is funding a partner to work with sex workers.

It is important to conceptualise the difference between direct implementation and working through partners. ActionAid’s role is very different in the two different modes of working. (Working ‘through’ partners is convenient short-hand which in itself may be misleading if one of the goals of the interaction is to strengthen the partner itself.)

ActionAid must aim to respect principles of empowerment and decentralisation when it is working through partners. It cannot impose its own agenda but must work to the partner’s agenda (albeit with continued discussion of approaches and issues). The relationships between NGOs that receive funding and those that give funding are complicated. But ActionAid has to aim to cut the link between control over money and control over power: otherwise it risks creating its own structure of oppression.

On a more practical level, direct implementation relies on a series of technical skills whether in service delivery or in lobbying and advocacy work. When working through partners, staff need different skills including: handling funding relationships and providing organisational development advice – as well as some technical input. This will help staff contribute to building organisations.

This conceptual issue has a direct impact on the work carried out by ActionAid's staff and on how ActionAid as an organisation supports its staff.

### **3.3.4 Strengthening conceptual clarity**

As noted above and discussed at length in other Taking Stock reports, there appears to be some confusion around these conceptual issues.

There is a great deal of reflection and a huge amount of ability within the organisation. Some staff have deep and sophisticated understandings of key concepts. Others may have contradictory views. Others again do not have a well developed understanding of these issues and talk about key concepts in muddled terms.

There are limited incentives for conceptual accuracy at the moment, and many different views are expressed and take root in a rather casual way.

This conceptual fuzziness can be useful, accommodating different perspectives and differences of opinion. But it is also important for such an ambitious and culturally varied organisation to help staff nurture the basic conceptual tools they need to Fight Poverty Together.

#### **Recommendation 1:**

ActionAid should consider what practical steps it can take to help staff understand the key conceptual issues which define what the organisation is trying to achieve.

This could include some or all of the following steps:

- A structured debate to clarify a small number of key concepts.
- Developing appropriate communication tools such as: accessible statements of key concepts; examples of how they are put into practice; reinforcement through newsletters.
- Supporting leaders within the organisation to help staff get to grips with key concepts.

It would also be interesting to consider whether it is possible to increase the incentives for conceptual accuracy. One approach could be more hard-edged review of documents.

## **4 ActionAid's way of working**

This section discusses how ActionAid organises itself to support the activities described above. It is important to take this step before looking at financial issues in detail. The financial issues exist to support ActionAid's activities, which in turn aim to achieve its goals. It would be premature to jump straight to the end of the chain.

It may also be useful to consider ActionAid's way of working with a view to thinking about how Taking Stock II's recommendations might be implemented.

#### **4.1 Achievements**

ActionAid has taken some immense steps over the last five years in revolutionising its way of working. Some country programmes are leading the way in creating values-based, inspiring organisations that consistently carry out very high quality work.

At its best ActionAid's way of working is characterised by highly committed staff making judgements at the local level based on a stretching set of values, who are accountable to the communities they aim to help.

This could be described as a network of development activists working in a common institutional framework. It is very different to a corporate, managed entity.

The hierarchy embodied in a corporate entity is antithetical to grass-roots driven development. In a corporate entity, the boss holds power and takes decisions. But good development practice depends on decisions being taken at the local level – not at the centre. For community work, the local level is *more* important than the centre.

But, within the legal structure of an NGO, the central board is responsible for the all of the organisation's actions. This sets up a basic organisational tension in organising for development: the centre has to support and trust local level staff to make appropriate judgements. At its best, ActionAid has taken important and very impressive steps to achieve this, releasing power from the centre. In particular, this is embodied in Alps.

#### **Example 3: ActionAid Kenya's organisation and values**

ActionAid Kenya's Country Strategy Paper 2002 – 2005 states its values as:

- Solidarity with poor and marginalised people,
- Fairness, justice and equity,
- Respect for the rights of women and children,
- Respect for diversity,
- Integrity: honesty, transparency and accountability,
- Participation and inclusion,
- Courage of conviction.

In 2004, ActionAid Kenya appears to be a highly values-based organisation. Hierarchies have been dismantled and interaction between teams and layers of staff is encouraged – for instance, drivers may be involved in discussions about programme issues. Staff are encouraged to “do the right thing” not to “do the thing right”. They are aware of the organisation's values which are living guides to their daily work.

This is the case for internally focused staff as well as programme staff. For instance, the finance manual starts by setting out the organisation's values.

The result is a very impressive level of commitment and a wide range of very high quality work being carried out at local and national levels.

However, major personal demands are made on staff. It is a difficult personal challenge to live up to these transformative values. These demands appear to have contributed to fairly high levels of staff turnover.

This is a major change over a few years. ActionAid Kenya has been described as being “hierarchical, bureaucratic and inefficient”<sup>3</sup> in 1998.

This way of working depends on a high level of decentralisation and empowerment, at the Country Director level and at all levels within Country Programmes. It is based on the understanding that ActionAid cannot tell staff what to do and cannot oversee all of its programme staff’s work in detail.

At the grass-roots of the fight against oppression, ActionAid’s staff work as activists not as managers. They have to respond to unfolding events in ways that cannot be planned in advance. They have to engage with local complexities and weigh up competing demands on time and resources. They also have to respond on a personal, human level to other people’s suffering and oppression.

ActionAid has to inspire staff to make judgements which are appropriate to local circumstances. The unifying principle within the organisation is not the management structure or that everyone is carrying out the same activities. Staff are tied together by the common mission and set of values. This could be described as a way of understanding the world and a way of responding to it. It shares some aspects of a religion. (For example, the behaviours set out at the beginning of Alps describe how ActionAid expects that staff should put their values into practice.)

At its best, ActionAid has taken a number of practical steps to support this way of working, including:

- Sustaining staff’s commitment to the organisation’s values (for instance in ActionAid Kenya through leadership and by encouraging all staff to spend time in the field).
- Creating space for local-level reflection and decision making (for instance by reducing unnecessary bureaucracy like detailed approval procedures and internal reporting requirements and allowing flexible spending within broadly defined budgets).
- Developing mechanisms for accountability to communities (through Alps and in particular through Participatory Review and Reflections Processes).
- Providing funding for long-term commitments to specific communities (primarily through Child Sponsorship).

All of these foundation stones are necessary for ActionAid’s way of working. I will discuss two in more detail: funding and leadership.

#### **4.1.1 Funding**

The funds provided through Child Sponsorship have been a foundation stone of ActionAid's way of working. The mechanism of linking donors to specific communities automatically makes resource allocation decisions over the medium term: Child Sponsorship funds have to be used to support specific communities and are reliable over a five to ten year period.

This income has provided ActionAid with the certainty to make medium term commitments to communities and the flexibility to respond to their evolving priorities. In fact, this funding mechanism has done more: it has *ensured* that a medium term commitment is made. Programme co-ordinators have the freedom at the local level to use funds however they believe is most appropriate, without having to engage with heavy bureaucracies.

It could be argued that funding which allows this commitment and flexibility is a necessary pre-condition for any successful development intervention. It is rare and precious in the NGO world, where a large proportion of funds is much more tightly restricted in its use.

ActionAid has dramatically increased other sources of revenue over the last five years. This has supported initiatives which are not specific to one community. It will be important to recognise the importance of stable, unrestricted, community-level funding in any future resource allocation mechanisms. This, along with some difficulties in the Child Sponsorship model, is discussed further below.

#### **4.1.2 Leadership**

Leadership is fundamental within ActionAid. Both internally and externally, the organisation works through leaders trying to influence individuals to change their personal behaviour.

A great deal of development is driven by personal change: changes in understanding, norms and expectations. Individuals choose whether or not to make these changes. The same is true inside the organisation. Many staff are not tightly managed. While they may be consulted, persuaded and requested to do things, many staff are rarely told what to do. Internal decisions are political negotiations, through which individual staff choose whether or not to change what they do.

This means that ActionAid relies on leaders both to stimulate processes of reflection and development among local communities and also to advise and guide staff.

A particular type of leadership is appropriate for rights based work: one that encourages collaboration and giving up control over power (embodying ActionAid's values) rather than one that guards power and wields it exclusively: more Ghandi and less Bush.

This type of leadership encourages other people to maintain their commitment to ActionAid's values and objectives and to take personal responsibility for their own actions: to become "self-managing". Staff are encouraged to understand what ActionAid is trying to achieve and to use their own experience and common sense to achieve it.

Within ActionAid's structure, power *can* be centralised. This is true at the board level, at the Country Director level or at the local level. Some exceptional people work for ActionAid at each of these levels, who have released power and encouraged the people who in organisational terms may be junior to them to live out ActionAid's values. It is mirrored in development activism, when ActionAid staff provide similar inspiration to community groups.

The pivotal position in ActionAid's current and future structure is the Country Director. Enlightened leadership in this position appears to be the single most important factor in creating the values-based organisations which are necessary for good development practice. When achieved, these are inspiring creations.

## **4.2 Issues for further consideration**

### **4.2.1 Further decentralisation**

While substantial progress has been made in some Country Programmes to invert their organisations, a great deal more could be done.

Some hierarchical structures remain in some Country Programmes. For instance, ActionAid India has "moved effectively towards a devolved, decentralised structure"<sup>4</sup> expanding the number of regional offices it operates from seven to fourteen, to be closer to marginalised communities. But it continues to operate a central project approval system coordinated by the Delhi-based Programme Support Unit.

This allows internal and external advisors to comment on the design of projects (as it is described on paper). While they may have a useful contribution to make, the system also bespeaks a lack of trust in local level decision making. It undermines the process of developing leaders and self-managing activists at all levels of the organisation – which may limit the potential scope and impact of ActionAid's work.

It may be appropriate to look at other ways of supporting the people who are taking the initial decisions (in this case sub-national Regional Managers) so that the organisation can have confidence in them. For instance, training, mentoring and inspiration may have more impact than reviewing and approving paperwork.

Other Country Programmes have suffered a lack of leadership. For example, the recent review of ActionAid Bangladesh's Country Strategy Paper reports that the organisation is widely respected and is carrying out plenty of good work, but that it has had difficulty implementing Alps and the rights-based approach and has a tendency to hierarchy and a non-participative organisational culture.

It notes "The challenge is not one of dilution of authority but of strengthening the process of leadership to meet the strategic goals of the organisation. [ActionAid Bangladesh] needs urgently to address the policy vacuums which have accumulated in all the areas of management, staffing, capacity-building and incentive systems."<sup>5</sup>

In general, across the organisation a sustained effort needs to be made to resist the temptation to see ActionAid as a corporate whole and to support the decentralised

way of working. People seem to approach large organisations with the expectation that they will be centralised, corporate entities. This is particularly the case for financial staff. In other organisations they may be expected to act as a brake or control on operations.

This mindset can have an impact at a subtle level. For instance, even asking certain questions from positions of perceived power (such as someone in a Regional Centre asking how much is spent on one activity rather than another) may have the consequence of reinforcing a centralised view.

### **Recommendation 2:**

ActionAid should consider developing simple communications messages to help staff keep the key organisational principle of decentralisation at the fore-front of their minds: something in the mould of ‘putting the last first’. Perhaps ‘putting the grassroots first’ or ‘decentralisation is the way to Fight Poverty Together’ – which may be easier to apply inside the organisation, but are not as good catch-phrases.

#### **4.2.2 Fragile way of working**

The decentralised way of working described above is fragile. It is subject to a number of pressures, including financial constraints, the hierarchical approach of many organisations that ActionAid collaborates with and people’s natural tendency to exert power. It is based on a number of factors, as briefly mentioned above.

The loss of any one of these factors could undermine the decentralised approach. In particular, in relation to financial issues, it could be damaged by the loss of unrestricted funds at the local level or the introduction of more bureaucratic resource allocation processes. These will be discussed in more detail below.

#### **4.2.3 Accountability of Country Directors**

Country Directors have very significant autonomy. They operate within a light line-management structure and can choose not to allow their peers or management team to hold them to account for all of their actions. They are in a powerful position. There is some concern that it is too powerful, including doubts about whether the values of transparency and cost-control (demanded by solidarity with the poor) are given proper attention. This is an issue for decentralisation at every level within the organisation.

Internationalisation will create national boards of trustees/directors who will hold Country Directors to account. However, in practice this is also often a light framework. The international internal audit team also provides a degree of accountability, reporting Country Programme performance to senior internal managers and trustees.

But it may be appropriate to consider ways of strengthening downward accountability rather than hierarchical methods of clipping Country Directors’ wings.

Alps creates the basis for downward accountability. But it is implemented unevenly across the whole of ActionAid. It may be possible to strengthen the process in two ways:

- (a) Split responsibility for carrying out key Alps processes so that finance teams are responsible for giving a financial account of all funds spent on behalf of communities. This is discussed in detail in section 5.
- (b) Audit the implementation of Alps, in the same way that Internal Audit currently audits the implementation of financial standards. This could potentially be handled within the current Internal Audit structure.

The quality of accountability could be described in Internal Audit reports and these could be used as a basis to recognising and addressing issues relating to Country Directors' performance. Good quality accountability would provide confidence that Country Programmes are broadly on track. Low quality accountability would be a warning sign that something was wrong.

This is a good illustration of a key role for the organisational centre: determining standards and monitoring adherence to standards, rather than being involved with the content of specific development programmes and outputs.

Related issues are discussed in other Taking Stock II reports including: leadership, learning and the personal demands that values-based work makes on staff.

## **5 Country finance teams' roles and responsibilities**

### **5.1 Achievements**

“Without properly kept accounts it is impossible to maintain truth in its pristine purity.”<sup>6</sup> Ghandi.

Power takes concrete form in money. Money is the most direct means for powerful people to impose their will on the world for their own convenience. So financial matters have huge symbolic and practical importance when it comes to thinking about processes of empowerment and collaboration.

ActionAid's finance teams in Country Programmes around the world have worked hard to support these processes and they have achieved a great deal. They have been actively supported by regional and international finance staff.

The Finance Strategic Plan sets three core roles for finance teams across ActionAid:

- “Promoting improving financial and operational performance.”
- “Supporting finance-related development work.”
- “Guarding the agency's financial integrity.”<sup>7</sup>

(The plan is discussed briefly in section 6.)

Using these roles as a guide, finance staff around the world have made many significant contributions to safe-guarding and strengthening ActionAid's decentralised way of working.

The specific achievements and initiatives outlined below show exactly why finance teams have such an important role to play in ActionAid's work. They not only keep careful watch over the money, but they also have a central role to play in putting the values of cost-control, value-for-money and accountability into practice. Without these, the organisation cannot support responsible development.

### **5.1.1 Financial control**

Suspicion over the misuse of funds can corrupt relationships as much as actual misuse can. ActionAid has worked hard to prevent both and has maintained a generally high level of financial control. This is based on substantial achievements, including:

- Clear articulation of the standards of financial control expected. These are made concrete in the practical policies of the ActionAid Financial Management Framework and in Country Programme finance manuals. ActionAid Kenya has distilled this into a simple, strong and frequently repeated mantra: "Zero tolerance for corruption".
- Resourcing to meet those policies. The number of finance staff varies between Country Programmes. In the Country Programmes visited there were enough finance staff in the country office and in field offices to handle the book-keeping and maintain basic controls. For instance, in India one member of each of the sub-national regional teams had specific financial responsibilities and the time to carry them out. Heads of Finance are qualified accountants.
- Respect for policies from programme staff as well as finance staff.
- Active Internal Audit teams at the international and national levels which verify whether standards have been met and make practical recommendations for improvements. See the section below for more details.
- Follow up actions are taken after Internal Audit visits which include both capacity building and the credible threat of with-holding or withdrawing funding from partner organisations which have misused funds.

The control environment is not perfect. For instance, internal audit's presentation to Country Directors at the African regional meeting in September/October 2003 noted a number of weaknesses, such as late completion of bank reconciliations, late submission of reports for donors and incomplete fixed assets registers.

The register of financial irregularities notes that the total amount that ActionAid lost through fraud during 2003 was £17,588. A large proportion of this is being pursued through the courts and some will certainly be reclaimed. It is reasonable to believe that the report captures the majority of fraud actually committed even at a local level, due to the extent and depth of internal audit work. Over the last five years, the average amount lost due to fraud was £54,511. In purely accounting terms, this amount is not material, as approximately 0.1% of current total expenditure. It is significantly lower than that faced by many of ActionAid's peer organisations.

While all fraud is unacceptable, no major NGO has won (or will win) the battle against temptation. In the same way, the control environment will never be perfect. All organisations everywhere have to continue to exert pressure to meet basic controls and they always occasionally fall short. ActionAid's control environment appears to be robust and not to pose serious risks to the organisation's ability to work towards its mission. This is an impressive achievement.

The high levels of commitment to ActionAid's values and mission across the organisation are likely to reduce the chance of fraud through collusion. Collusion at a senior level is a feature of most large frauds. So it may be possible to reduce the risk of fraud even further by encouraging staff to strengthen their commitment. This is discussed further below.

ActionAid's approach to financial control may provide a model that could be applied to guarding other key values within the organisation, such as the rights-based approach, gender or others. The key steps that could be considered for replication are:

- Setting and communicating a practical standard (developed from basic values).
- Allocating enough resources to teams to allow the organisation to meet the standard.
- Verifying actual performance through internal audit (or an equivalent verification mechanism).
- Providing capacity building support where necessary and stopping or redirecting initiatives where performance diverges too far from the standard.

This last point about taking remedial action may at times be uncomfortable. But it has the great benefit of sending out a clear signal about what the organisation takes seriously.

In addition, the use of the phrase "zero tolerance for corruption" is a model of effective communication. The phrase sums up a standard, is memorable and has immediate, practical implications.

### **5.1.2 Internal audit**

ActionAid employs dedicated and professional internal audit staff at the international and national levels.

At the international level, a team of three internal auditors aims to audit every Country Programme and Regional Office at least once every two years. They also regularly visit UK departments. In 2003, the team achieved about 86% of their planned work plus two unplanned Country Programme audits.

The international internal audit team has three broad goals:

- "To provide a service which ensures that charitable funds received by ActionAid are used in the most cost effective and efficient manner in pursuit of ActionAid's mission to work with poor and marginalized people to eradicate poverty."
- "To provide assurance to senior management and the Board of Trustees on the adequacy of ActionAid's control environment."

- “To manage ActionAid’s overall approach to risk assessment and management and providing the basis for compliance with SORP [Statement of Recommended Practice] 2000 requirements and achieving FPT [Fighting Poverty Together].”<sup>8</sup>

The Head of Internal Audit reports to the Finance Director and has direct access to the Audit Committee, which is made up of three trustees and is chaired by the Treasurer.

The international team takes a risk based approach to audits, assigning a high, medium or low rating to each country. In recent years, internal audit has broadened its scope from central financial issues to include areas such as partnership development and sponsorship reporting. International Internal Audit also supports national audit teams, for instance through publishing a regular newsletter as well as during audit visits.

ActionAid employees approximately 29 internal audit staff globally. 26 of them are employed at the national level, covering 17 Country Programmes. Three are employed. An example of a particularly well resourced audit team is given below.

#### **Example 4: Internal Audit Unit in ActionAid India**

ActionAid India’s expenditure was £7.6m in 2003. It has 14 regional offices across the country, 98 Development Areas (DAs) and provides grants to numerous other organisations.

ActionAid India’s Internal Audit Unit was substantially expanded in 2001. It now comprises the Chief of Audit, 8 Internal Auditors and one administrator. A 104 page audit manual was developed in 2002, which sets out the responsibilities of auditors, explains how they should approach their work and provides practical tools for completing audits. (This includes a questionnaire which assigns simple numerical ratings to a wide range of financial management issues, to support the identification of risk and monitoring progress.)

The Internal Audit Unit audits *all* of the DAs and *all* of the regional offices *twice* per year; and one off, shorter projects once per year. This adds up to approximately 250 audits per year.

Written action plans are prepared after each audit; agreed with programme staff; and progress is reviewed in the following audit. The auditors also provide capacity building support in financial management issues in general and in relation to the requirements of the seven statutes which regulate Indian NGOs in particular.

The Chief of Audit reports to the Country Director and to the National Audit Committee, which comprises the Country Programme’s senior managers. The National Audit Committee is responsible for approving the Internal Audit Unit’s annual plan and for resourcing the unit accordingly.

ActionAid India is also subject to two external audits: one for ActionAid International and one to meet the terms of the Foreign Contribution (Regulation) Act. These may focus more on verifying financial reports than on considering financial systems or

wider risks.

All in all, it is not surprising that the Chief of Audit commented that fraud is very rare in ActionAid India and in its partners: everybody knows that there is simply no realistic chance that they could get away with it.

Internal audit appears to meet the three goals mentioned above to a high standard.

The international internal audit team provides the only regular and independent source of information about performance at the Country Programme level, compared to pre-determined, objective criteria. This is an important check on how Country Directors and their teams use the resources and authority at their disposal to fight poverty together.

The Head of Internal Audit's access to the audit committee provides a direct route for this information to reach the board of trustees. This is an important feedback loop, providing independent comment on the extent to which managers and staff are putting the organisation's policies into practice.

Equally, national audit teams provide an important monitoring and control mechanism for Country Programmes. They have a pivotal role to play in guarding the use of ActionAid's resources and maintaining financial control. In addition, they provide a level of capacity building support to programme staff and partners.

It is particularly impressive that ActionAid is taking active and appropriate steps to ensure financial control without choking grass-roots work or innovation by trying to exert central programmatic control.

### **5.1.3 Upward financial accountability**

Finance teams in Country Programmes put substantial effort into upward financial accountability. This is based on robust book-keeping and accounting records – always high priorities for any finance department. They appear to be carried out to a high standard.

Finance teams have a clear understanding of the information they are expected to provide and the timetable they are expected to meet for reporting. This is based on a series of templates for the Annual Finance Report which are distributed by the International Finance Team and the policies set out in the ActionAid Financial Management Framework.

The Annual Finance Report includes:

- income (from different sources) at the Development Area (DA) and Country Programme (CP) level;
- expenditure at each level, and also categorised into four 'statutory' categories and into five 'natural cost' categories;
- reserves at each level;
- exchange rates;

- a number of associated indicators including expenditure on horizontal themes and HR/OD measures such as staff numbers split by gender.

ActionAid uses SUN as its accounting package worldwide to maintain and analyse accounting records. During 2003, ActionAid successfully upgraded all Country Programme's SUN software to work on a more stable platform which has improved performance, for instance by reducing the time taken to generate reports.

ActionAid's external auditors, KPMG continue to provide an unqualified audit opinion of ActionAid's accounts:

“In our opinion the financial statements give a true and fair view of the state of affairs of the charitable company and the group as at 31 December 2002 and of the group's incoming resources and application of resources, including its income and expenditure ... and have been properly prepared in accordance with the Companies Act 1985.”<sup>9</sup>

This clean bill of health is an important achievement which represents a substantial amount of work in an organisation as dispersed and complex as ActionAid.

#### **5.1.4 Country and regional level initiatives**

There has been substantial innovation within finance teams at all levels. Some examples of good practice at the country and regional level include:

In Vietnam, the finance team worked with the impact assessment team as well as programme staff to develop a framework for Participatory Review and Reflection Processes (PRRPs) at DA level. This included distributing management accounts of DA programmes before the PRRPs took place.

In Burundi, the finance team have been closely involved in managing the contracts associated with official (restricted) funding. A process is underway to capture this good practice and make it available as guidelines for contract management across the organisation.

The Regional Finance Co-ordinator in Asia recently carried out a finance review as part of the review of ActionAid India's Country Strategy Paper. The review makes a detailed analysis of expenditure and income and comments on a large number of financial management issues.

A number of Country Programme finance teams have taken initiatives to provide capacity building support to partner organisations and to programme staff. This includes initial identification of any shortfalls in this area and then providing training and on-going support. Examples noted in the International Finance Function Report 2003 include:

- In Haiti, simple tools to share expenditure information between partner organisations have resulted in greater awareness of cost effectiveness issues. This has resulted in a “considerable reduction” in partners' support costs in 2003.

- In Kenya, six Capacity Building Accountants have been employed, specifically to assess and build the capacity of partner organisations. They work closely with Kenya's finance and internal audit teams as well as with programme staff.
- The Latin American and Caribbean (LAC) region prepared financial training documents for non-finance staff.
- In Uganda, financial training for non-finance managers and induction for new staff have resulted in a "marked improvement" from non-finance staff in their understanding of how finance operates.
- In Tanzania, the finance team has developed a partnership support pack<sup>10</sup>.

In the best cases, these initiatives benefit from strong interaction between finance, fundraising and programme staff. Many other finance teams are probably involved in some degree of capacity building work or supporting PRRPs, programme work or fundraising in other ways.

But it is hard to gauge either the quality of these approaches or the how widespread they are. For instance, the International Finance Function Report notes that "most Country Programmes [in Africa] reported having processes in place for evaluating partners' financial systems". This could mean anything from a half-page checklist for programme staff to a detailed structured review by qualified accountants.

There is a wide variety between Country Programmes' practice. Initiatives tend to grow up at the country level. While the regional offices play a role in sharing them between Country Programmes, it can still be difficult for other Country Programmes to take them on. This is discussed further below.

### **5.1.5 Block budgeting**

There are many references to the use of 'block budgeting' across the organisation. These range from budgeting for horizontal working groups to DAs.

This approach to budgeting has a major empowering effect, supporting the decentralised way of working and rapid, local level decision making. It liberates programme and finance staff from time-consuming detailed forecast calculations that may either constrain programme evolution or simply turn out to be inappropriate if (or when) conditions change.

## **5.2 Issues for further consideration**

The key issues considered in this section are: leadership by Heads of Finance and involvement of finance teams in programme work. These are necessary mechanisms for encouraging finance teams to support responsible local level decision making.

Later sections identify a few specific areas that finance teams may choose to consider. Many of these are currently being discussed within ActionAid, for instance at the recent International Finance Conference, held in Bangkok in June 2004. A few practical suggestions are offered for taking these issues forward.

### **5.2.1 Different levels of involvement by finance teams**

It is striking that some Country Programme's finance teams are substantially more involved in programme work than others.

Some are developing new ways of supporting programmes; others are focused on maintaining financial control. Some are involved in reviews of programme activity; others are not. Some are involved in management decisions; in other Country Programmes the Head of Finance is not a member of the senior management team.

Finance has a crucial role to play in ActionAid's work. ActionAid has a moral and legal obligation to make the best use of every pound it has available. This is simply not possible without the continual involvement of finance staff.

The two most important factors which influence the finance team's level of involvement in programme work seem to be the attitudes of the Country Director and the Head of Finance (in that order).

Levels of resourcing can be negotiated and will follow decisions made within each Country Programme. If a Country Director recognises the value of the support that the finance team can offer, then money may be found. But if the Country Director does not, then it is difficult for a Head of Finance to argue for a greater role within the organisation.

The International Finance Director took a lead in developing the Finance Strategic Plan in 2000. But, variable progress has been in achieving the clear objectives which it sets out. The International Finance Director cannot manage finance teams directly to focus on these objectives. He can influence and support: but it is up to the country level management teams to choose whether and how to implement them.

This question of how to support a model of devolved leadership is central for the further development of the finance function. It has a number of direct implications, including:

- Reaffirming the fundamental importance of recruiting the right people into key leadership positions: the Country Director and the Head of Finance roles.
- Helping those people to strengthen their understanding both of their financial responsibilities and also of the benefits available from finance teams' involvement in programme work.
- Providing practical support and guidance in helping those people negotiate for resources and attention from their senior colleagues.
- Providing practical support and guidance in helping those people inspire finance teams (and other related support teams) with ActionAid's values and mission.
- Providing a framework which encourages appropriate involvement of finance teams in programme work.

ActionAid is doing a lot to engage with these implications already. For instance, Heads of Finance are recruited very carefully at the moment, with the active involvement of the Regional Financial Coordinator. The International Finance

Conference provides an opportunity to share experience and solve common problems. The ActionAid Financial Management Framework sets up some common standards. Regional Finance Coordinators support Heads of Finance.

However, there is always the risk that Heads of Finance (or other finance staff) may lose some of their motivation. They can become cut off from field work and miss incentives to improve their performance. It may be possible to do more, in particular in encouraging greater involvement of finance staff in programme work.

Finance teams cannot expect to be welcomed by programme staff with open arms. They have to recognise that they can be perceived to inhibit programme work – and that this is sometimes fair. Finance staff have to take a proactive approach and prove that they can make a valuable contribution to fighting poverty together.

The first step in achieving this is a real and demonstrable commitment to the organisation's values (discussed in section 4). Once finance staff show that they understand what ActionAid is trying to achieve then they can start to become partners to programme staff.

This is also the most effective way of trying to achieve goals such as careful cost-control, value-for-money and building partners' financial capacity. If finance staff try to impose these disciplines from outside the development process, then they may create bureaucracy and undermine ActionAid's decentralised way of working. They may also increase tension between finance and programme staff.

But if finance teams can help programme staff to use these approaches to put the organisation's values into practice, then they may be pushing at an open door. This can be put into practice through initiatives such as providing training to programme staff in financial issues and helping programme staff understand different purchasing or operating approaches.

This will be stretching for finance staff. It will involve developing new skills and possibly re-orienting their view of the role of finance in the organisation. It is likely also to challenge their values on a personal level. (It certainly does for me.)

### **Recommendation 3:**

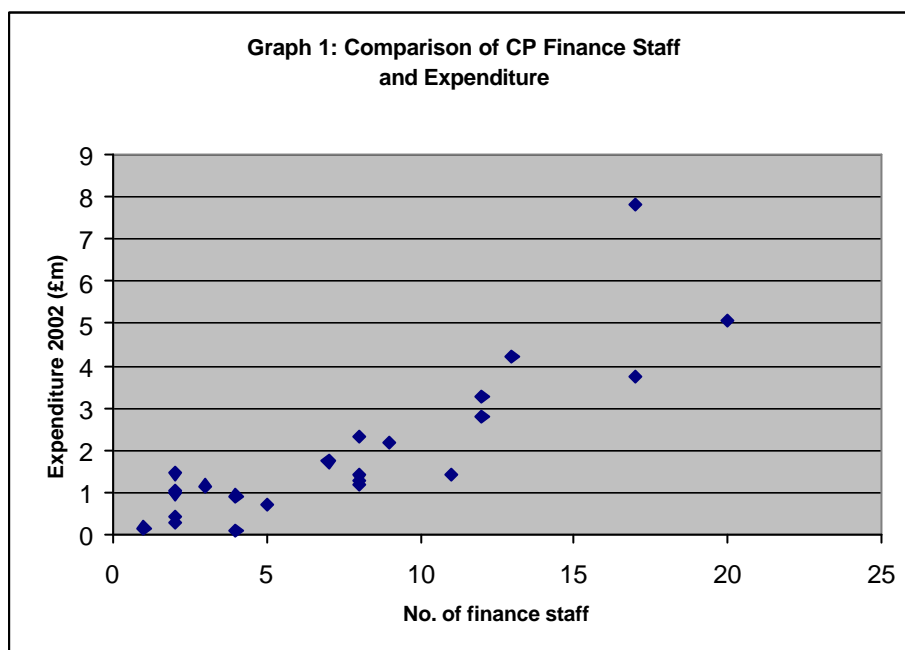
ActionAid should consider how to inspire Country Directors and Heads of Finance to provide leadership for their teams which encourages finance staff to be actively involved in programme work.

Some practical approaches that could be explored by International, Regional and Country Programme finance teams might include:

- All finance staff spending time in the field with poor or marginalised communities – perhaps a minimum of two weeks per year.
- All finance staff receiving on-going training in programme work and/or exposure to programme issues.
- All Heads of Finance being members of Country Programmes' senior management teams.

- All Heads of Finance taking on explicit responsibility (set out in their job descriptions) for (a) maintaining their teams' commitment to ActionAid's values and (b) encouraging practical collaboration between finance staff and programme staff.
- All Country Directors taking on explicit responsibility (set out in their job descriptions) for involving finance teams in programme work.
- Finance staff being involved in reviews of programme work (at country level and DA level).

## 5.2.2 Different levels of resourcing of finance teams



Graph 1 shows each Country Programme's total expenditure (in 2002) plotted against the total number of finance staff they employ (in 2003, excluding internal audit)<sup>11</sup>. It shows that broadly as Country Programmes spend more, they employ more finance staff: intuitively this looks like good news.

However, it also shows significant disparities between Country Programmes. For instance, here are four specific data points:

Country Programme	Number of finance staff at end 2003	Expenditure 2002 (£m)
ActionAid India	17	7.8
ActionAid Uganda	17	3.7
ActionAid Pakistan	2	1.5
ActionAid Sierra Leone	11	1.4

ActionAid India's expenditure is over twice ActionAid Uganda's and they employ the same number of finance staff. ActionAid Pakistan's expenditure is almost the same as ActionAid Sierra Leone's and they employ around 80% fewer finance staff.

Expenditure is not the only measure of the scale and complexity of financial issues. There may be good reasons why one Country Programme employs more or fewer finance staff. Some of these may relate to external factors (such as the number and type of funding partners a Country Programme works with). Others may relate to internal factors (such as the type of support provided by the finance team to programmes).

However the number of Country Programmes pursuing broadly similar programmatic goals provides a useful opportunity for benchmarking. It is likely that some finance teams are able to add considerably more value to ActionAid's work because they have adequate resourcing; and that other finance teams are constrained because they do not have enough.

For example, while ActionAid India's finance team appears to be very well resourced, 14 of the 17 staff work at the sub-national regional level, providing administrative as well as financial support to regional teams. The central finance team does not appear to have enough time to provide high levels of support to central programme decision-making.

ActionAid Kenya employs more finance staff for a smaller programme run through fewer regional offices. As a result, they have substantially more resources to provide support such as capacity building for partners and assessing their financial systems.

#### **Recommendation 4:**

ActionAid should consider carrying out more research on the services that finance staff provide to national teams and the numbers of finance staff employed in different Country Programmes. This could possibly inform country level managers about the level of resourcing that is appropriate to provide different types of support by the finance team to programmes.

#### **5.2.3 Financial accountability to communities**

Some DA-level initiatives provide a financial account of ActionAid's expenditure to local communities. However, this is patchy. Whether or not it happens appears to depend on the decision of the local programme manager or co-ordinator. This sets up an unavoidable conflict of interests for these people: they may understandably choose not to report the financial impact of decisions that they are not fully comfortable with.

One particular approach that may be worth piloting is for finance teams to take on responsibility for ensuring financial accountability to communities. This could be handled within Alps. It would bring a number of benefits and may be a practical way of meeting some of the recommendations mentioned above. It would directly support the decentralised way of working in a number of ways. Specific benefits include:

- Ensuring that finance teams have to work with programme teams at least from time to time. This might enhance collaboration and break down barriers between teams.
- Ensuring that finance staff have direct involvement with local communities and providing an appropriate way for finance staff to contribute to programme

development. This might help strengthen finance staff's commitment to ActionAid's values and maintain their focus outwards, on the needs of communities.

- Providing an additional discipline for programme staff. It would no longer be their decision whether to provide this information to communities or not. They would know that the financial implications of their programme decisions would be explained to communities. This would also help finance staff to be confident that programme staff use resources responsibly – lingering doubts remain over this issue, sometimes with good reason.
- Increasing the practice of financial transparency to communities and so building additional trust between them and ActionAid. At the moment this does happen within ActionAid, but inconsistently.

It is an approach that would bring a number of challenges. Finance staff would have to develop communication tools and skills. They would need the sensitivity to work effectively with programme staff and with communities. Ideally, they would be involved in programme planning and budgeting and continue to bring financial support throughout the duration of a programme.

It would also be interesting to explore just how financially transparent ActionAid was willing to be: would the organisation be comfortable reporting on the costs of four wheel drive vehicles or office overheads? If not, why not? ActionAid is only a mechanism for using money from donors on behalf of poor and marginalised people.

However, with appropriate management and support, suitable responses to these challenges could be developed. Several Country Programmes have already started working on them, including ActionAid Haiti, Kenya and Vietnam.

It may be useful to look at the example of recent work by ActionAid Vietnam in more detail. They have compared spend on broad activities to the priority assigned to those priorities by communities:

Extract from Review of ActionAid Vietnam's DA1<sup>12</sup>:

<b>Activities</b>	<b>Total costs (000's VND)</b>	<b>Ranking</b>
Agriculture extension	2,483,566	1
Paravet	1,397,934	4
Irrigation	2,932,218	5
Health	2,220,703	3
Savings & credit	5,371,105	2
Education	771,411	6

The "Total costs" column shows the total amount spent by ActionAid on each of the six key activities in the DA over the period 1992 – 2003. The "Ranking" column shows the ranked priority that the communities affected by the DA assigned (democratically) to each activity in 2003.

The table shows that ActionAid has done a reasonable job of matching their activities to the needs expressed by the community at a certain point of time. (These needs may have changed over the course of the project.) But it also begs the important question

of why so much was spent on irrigation when the community thought that it was one of the least important activities. There may be good reasons for this. But the table provides a simple entry point to enhancing meaningful accountability to communities and improving the information they have available to discuss programme activities with ActionAid staff.

It provides a level of information to communities very similar to the information that ActionAid calls on local government offices to make available. It encourages a level of scrutiny that ActionAid urges citizens to apply to national and local government expenditure. This can only be good for the processes of empowerment and democratisation.

#### **Recommendation 5:**

ActionAid should consider piloting the step of making finance staff responsible for financial accountability to local communities. This could have wide ranging impact across Country Programmes' work and it may be conceptually simple enough to be relatively easy to handle within the model of devolved leadership.

#### **5.2.4 Management accounts**

For the second year running, Internal Audit's Annual Report in 2003 noted that "a sizeable number of Country Programmes are still being managed without adequate management information". This issue was also evident in field visits and is mentioned in other reports. For instance, one major Country Programme issued only three sets of management accounts during the last financial year.

The ActionAid Financial Management Framework states that "all offices ... should prepare and disseminate monthly management accounts for budget-holders" and that "the Head of Finance should ensure that monthly accounts are reviewed by the [senior management] team on a monthly basis."

This is a serious issue. Senior management teams cannot properly consider the financial implications of their decisions without proper management accounts. They cannot carry out their responsibilities fully. The lack of financial information is also likely to drive a wedge between programme and finance staff, undermining trust and any of the initiatives outlined above.

It is hard to see the current situation as anything other than a failing on the part of Country Programme Heads of Finance. It also provides a powerful example of the limitations of centrally issued policies and the organisation's reliance on personal understanding and motivation at the local level.

#### **Recommendation 6:**

ActionAid should take active steps to encourage all Heads of Finance to recognise and meet their responsibility to provide useful management accounts to senior management teams every month.

This might include practical steps such as:

- All Heads of Finance should have explicit responsibility (set out in their job descriptions) for providing their senior management teams with timely, accurate and easy-to-understand management accounts on a monthly basis.
- All Country Directors should request this information and manage their Heads of Finance to support them to provide it.

### **5.2.5 Resource allocation and three year planning**

ActionAid is taking active steps to change its income patterns and to release itself from the resource allocation constraints of Child Sponsorship. There has been impressive progress in a wide range of fundraising activities (discussed further below). However as a result, ActionAid will have to work out new ways of deciding how best to use the resources available.

For example, Next Steps income (and official funding such as DfID's Programme Partnership Agreement) can be used for any activity within a Country Programme. It has to be allocated to specific activities – ideally over a medium term time-frame of three to five years. Most official funding can only be raised for specific projects. So, these projects have to be planned in advance and prioritised for fundraising.

It is not obvious that ActionAid is currently making these important resource allocation decisions as well as it could. For instance, recent analysis concludes that “Very little Next Step income was spent on country-level work. A lot was not spent at all.”<sup>13</sup> At the end of 2003, roughly £5m of unrestricted income (including Next Step income) had not been spent and was held in reserves; £4.5m had been spent at DA level; £1m was transferred to Regional Offices; and £4.5m had been spent on non-DA projects (including country level initiatives).

There is a general perception that the three year planning process is not generating coherent three year plans. Instead, it seems to be frequently used to prepare careful one-year budgets with two years of rough projections added on afterwards.

Finally, there is clear frustration in some fundraising teams that it has proved impossible to put together a prioritised list of projects for funding. It is clearly difficult to plan detailed projects in a way that supports the decentralised and flexible way of working. However, it is not impossible and many NGOs find working compromises to this familiar problem.

ActionAid Country Programmes that have enjoyed substantial levels of Child Sponsorship income have not had to consider resource allocation decisions at the DA level: they have been made automatically. This growing requirement to make explicit decisions about how to use limited resources will require new ways of working to be developed. Finance teams should take a lead in this, developing approaches and reassuring programme staff that decisions are not made arbitrarily or behind closed doors.

This is a central challenge for finance teams. There is no easy way for NGOs to decide how to make the best use of their scarce resources. Many organisations fall

into the trap of developing bureaucratic systems of reviewing and approving projects which could strike a death blow to the decentralised way of working.

For example, there is no doubt that some of ActionAid's rights-based work is having an impact on the lives of many more marginalised people than service-delivery work and that it is tackling the causes of impoverishment. ActionAid could probably still achieve more by spending less. But it is impossible to measure and compare the impact of different interventions. (This is discussed further in the section on cost analysis below.)

It may be useful to approach this issue by reviewing how resource allocation decisions are made at the moment. This would be a major piece of work which probably requires its own study. As a brief starting point, it is my perception that a wide range of different criteria are used in different decisions at the DA, Country and International levels, including:

- Country Strategy Plans – These develop analyses of poverty and impoverishment and identify areas for ActionAid's intervention. But they are not all supported by strategic financial plans.
- History – Continuing to fund what ActionAid did last year and the year before. For instance, it is difficult to change course quickly, particularly if that involves staff changes.
- Human response to suffering – People working for ActionAid tend to want to help people whose suffering they see personally. This is a very human response which has a major implication for resource allocation. But it is not often recognised within the organisation, where subjective decisions may be dressed up in objective clothes.
- Consideration of relative poverty – Some detailed work is carried out which compares the extent of poverty in different localities and the contribution that ActionAid could make to fighting it. This is an objective and time-consuming approach.
- Funding opportunities – Official donors generally have their own priorities. As ActionAid receives more funding from official donors, it is more likely that ActionAid will be influenced by them.
- Personal priorities – Some members of staff have particular commitments to particular people or issues. This may be informed by a range of factors, which may include: a stronger or weaker analysis of the causes of poverty, the wish to support particular groups of people or the ambition to make a splash through their own personal contribution.
- Programme opportunities – Staff may see a particular opportunity to tackle a particular issue and act on it when the moment is right.
- Political significance – Certain issues may have particular significance at certain times and add to ActionAid's wider work. This was one factor considered in developing a new Country Programme in Afghanistan.

This varied and incomplete list suggests that there is no single approach that guides staff in deciding how to allocate resources. Every decision requires the consideration of a range of factors, some of which may oppose each other.

It may not be possible to develop a single approach to resource allocation. Broad areas of intervention could be (and have been) identified, based on the organisation's specific experience and competencies. But at the local level, this may be a decision that has to be left to the judgement of committed staff based on the organisation's values.

One fundamental and un-resolvable problem underlying this is the gulf between ActionAid's resources and its mission. There is no way that ActionAid can "eradicate poverty". It will have to accept that it will help some people more than others – and this is at odds with the basic principle of equity. Of course all NGOs just like governmental and super-governmental organisations struggle with the same problem. At the governmental level, the political process is a major influence on resource allocation. The same is true – albeit less formally – within ActionAid.

Some practical avenues that might be explored further include:

- Ensuring that senior management teams are aware of the resource allocation choices that they are making and consider alternative ways of spending the resources they have available. Heads of Finance may be in a position to take on this responsibility at Country Programme level.
- Developing a list of criteria to be considered for resource allocation decisions at the International, Regional and Country levels. This might involve coming to an explicit understanding of the limits of what ActionAid can achieve – though of course this may be politically sensitive and could undermine motivation and commitment.
- It may also be appropriate to consider developing explicit exit strategies and criteria for withdrawal from programmes or other activities.
- Including broad, medium-term financial goals within Country Strategy Plans. Ideally, these would be defined in a way that makes them measurable. This is not easy, and relates to the discussion below in the section on cost analysis.
- One practical tool could be to identify a particularly successful recent project and calculate a rough benefit per unit of cost from it. While of course this would be very imprecise and would not capture critical intangibles such as enhanced empowerment, it might help provide a rough yard-stick which could be used to help compare different projects. An example is provided below.

An example of a 'yard-stick' for consideration in resource allocation decisions

Many NGOs responded to the food crisis in Southern Africa in 2001/02. They each decided how best to use the funds they had available to help the people affected. They carried out many different types of work, some of which were evaluated by the Disasters Emergency Committee in October 2003<sup>14</sup>.

The evaluation found that some responses were much higher quality than others. One example of good practice was a programme which paid people in agricultural inputs to build a road. In crude financial terms, it cost £19 to pay a farmer 50kg of fertiliser and 10kg of maize seed in return for working on one km of road.

These figures do not tell the whole story. But they provide a simple way of comparing one aspect of resource allocation decisions.

Another NGO was criticised in the report for spending approximately £500,000 on a trucking operation in Zambia which moved less than 3,000 tonnes of food. Comparing the two figures suggests that the trucking operation could have been used to support over 26,000 households through the road-building programme.

Of course, this kind of exercise is much easier in humanitarian service delivery projects than in rights-based work. But it could be one useful tool in helping managers consider the opportunity cost of the resource allocation decisions they make.

Senior trustees in another NGO used a rule of thumb that it cost £1 to provide clean water to one person for one day. This is very rough and probably not very accurate. But it helped them to conceptualise the opportunity cost of resource allocation decisions – or in other words, to think about the different value they might place on buying new vehicles rather than second-hand ones.

Finally, in this section, there is some concern that international work has been insufficiently funded in the organisation. For instance, horizontal working groups have struggled to take shape and deliver some of the benefits that were expected from them.

It is not always clear how issues are selected for macro-level policy and advocacy work and whether they are always in touch with the current situation and priorities of local communities. The challenge may rest with the organisation to prove the value of horizontal working groups to Country Programmes. Perhaps ActionAid International could consider doing more to show Country Programmes why they should spend their resources on international policy work rather than closer to home, where impact may be more obvious.

### **Recommendation 7:**

ActionAid's finance staff should consider how they can help staff and managers to make resource allocation decisions. This may include further research into current practice and developing practical tools and methods.

### **5.2.6 Broadening Internal Audit's role**

As discussed above, Internal Audit provides a robust mechanism for verifying practical compliance with key policies. It may be worth exploring whether Internal Audit could also consider a few other well defined issues.

As discussed in detail below in the cost analysis section, financial integrity and cost effectiveness are not the only criteria for successful programme implementation. But at the moment, they are the only criteria against which performance is routinely monitored. Rather than set up new mechanisms for verification of other criteria, it may be worth considering whether the existing mechanism could be broadened.

This would require a substantial change in the skills and experience of people working in and managing Internal Audit.

The first non-financial area to try auditing this way might be Alps. It is of central importance to the organisation and it comprises a relatively audit-able series of processes. Other areas could include the rights-based approach, gender or others. ActionAid Kenya's Internal Audit has already started to explore social audit as a way of testing whether programme decisions accurately reflect local communities' priorities.

This approach brings serious risks: Internal Audit teams may become unmanageable and lose focus or impact; they may demand too much management attention; they may simplify and distort complex issues.

However, it also brings a tremendous opportunity. If piloted sensitively then it could increase the organisation's ability to understand whether its most important policies are being put into practice and are having the effects intended. Internal Audit also often plays an important role in sharing good practice and helping staff strengthen their skills.

### **5.2.7 Quantifying partners' financial management capacity**

Within ActionAid, a number of initiatives aim to measure the financial management capacity of partner organisations. These include the questionnaire used by ActionAid India's Internal Audit Unit and the structured assessment process used by ActionAid Kenya's Capacity Building Accountants. There are many others.

These judgements can be quantified. This brings a number of benefits, including making partners' financial management capacity concrete in the minds of managers and staff. It also provides a simple way of measuring progress (or lack of it). ActionAid India's Internal Audit Unit already quantifies partners' financial capacity. Externally, Mango's Health Check does the same thing. (It is freely available from their website<sup>15</sup>.)

ActionAid relies on the financial management of its partners as a critical factor in its ability to work towards its mission. It would be good practice to measure and manage this factor actively and regularly.

## **6 International and regional finance teams' roles and responsibilities**

ActionAid International is supported by a small central finance team, led by the International Finance Director. They provide an impressive range of support to the organisation. Working closely with Regional finance teams, they play important roles in many of the achievements described above in section 5.

It is useful to note that the international finance team does not manage Country Programme finance teams. They provide guidance and support. But Country Programme Heads of Finance are managed by Country Directors, who in turn are managed by Regional Directors. So, there is no single organisation-wide finance function; there are many separate finance functions.

This section sets out some of their major achievements and challenges. It is shorter than section 5 above. This is not to belittle their work – quite the opposite. Many of the achievements of the international and regional finance teams are directly reflected in the achievements of the Country Programme teams. There is a great deal of collaboration between these teams, and it is sometimes hard to draw a distinction between the two.

## **6.1 Achievements**

### **6.1.1 Setting standards and objectives**

In 2003, the International team completed the ActionAid Financial Management Framework (AFMF). This document sets out key policies and standards which local Country Programmes adapt and put into practice through their own accounting procedures manuals.

It replaced the International Financial Policies and Procedures Manual, which included a much more detailed set of procedures. This is a progressive step on the part of the international team, supporting the decentralised way of working and recognising the relationship between the Country Programmes and ActionAid International.

The AFMF is a central plank in establishing ActionAid's control environment and in the effective co-ordination of financial processes across the organisation.

In 2000, the International team published the final version of the Financial Strategic Plan. This set out three core roles for finance teams and defined a series of specific objectives. The core roles are frequently quoted across the organisation and have helped finance teams to conceptualise their role. This is a substantial achievement.

### **6.1.2 Financial information**

The International team and the regional finance teams are very active in collecting and collating financial information. They pull together a number of important organisation-wide reports, including the Annual Finance Report, the statutory annual accounts and the International Finance Function Report.

They handle a wide range of information requirements, such as the system of recharging payments made in one Country Programme that apply to another and handling exchange rates.

This work is central to the smooth functioning of the Country Programmes. The reports are also the key to organisation-wide financial accountability, providing an overview of key financial issues to the International Directors, the trustees and other stakeholders.

### **6.1.3 Supporting finance teams**

Regional finance teams in particular provide a great deal of support to Country Programme finance teams. This includes a number of very practical steps, including:

recruiting finance staff; stepping in to plug short term staffing gaps; troubleshooting; capacity building and sharing learning and experience.

The Regional Finance Coordinator for Asia hosted this year's International Finance Conference, working in close collaboration with the International finance team. This was held approximately 18 months after the previous International Finance Conference. It provided an opportunity for the Heads of Finance and other finance staff to spend time together, working on common problems and sharing their experience.

In addition, the International and Regional teams also support the external audit: another time consuming and essential process.

#### **6.1.4 Treasury management**

The International finance team monitors the cash requirements and reserves of Country Programmes. They remit cash around the world and they handle ActionAid's investments in the UK.

Without cash, none of ActionAid's staff could be paid. Maintaining the flow of this life-blood is of critical importance to the organisation. The international team has not only kept funds flowing, it has improved its cashflow management in recent years. For instance, the average number of weeks of planned expenditure held as cash balances by Country Programmes at the year end fell from six in 2002 to three in 2003.

Over the same period, the international team increased investment income after a dip in 2002.

### **6.2 Issues for further consideration**

The Finance Strategic Plan contains a series of detailed objectives. Not as much progress has been made on them as was expected. Within the framework of devolved leadership, this may not be surprising. Local finance teams have taken a broad steer from the Finance Strategic Plan. But there may be no particular incentive for them to implement its detailed requirements.

This is another good illustration of the relationship between the international team and the Country Programme teams. The Heads of Finance and the international team do not comprise a single finance function (which may suggest an inaccurate, corporate model). They are a network of finance professionals collaborating within the framework of ActionAid's Country Programmes.

This conceptual issue is at the heart of the specific issues mentioned in this section.

#### **6.2.1 Leadership for the Heads of Finance**

Just as the role of senior staff at Country Programme level is to provide leadership to their more hands-on colleagues, one of the key roles of the international finance team is to provide leadership to the Heads of Finance.

This is recognised within the international team and informs many of their working methods. However it may be useful to articulate it explicitly and consider how it could be developed further.

As discussed above, the most important and effective way of improving the implementation of practical procedures is by encouraging implementing staff and managers to maintain their commitment to ActionAid's mission and values. Given the organisational structure, this is as true for finance staff as it is for programme staff. Heads of Finance have to cascade this leadership to their finance teams, to help them to maintain their motivation and commitment.

It may be possible to encourage Heads of Finance to think of themselves as a peer group of leaders rather than as a group of managers who report indirectly to the Regional Finance Coordinators or to the International Finance Director.

### **Recommendation 8:**

ActionAid's International Finance Team should consider how it can inspire Heads of Finance to provide the kind of leadership to finance staff that encourages them to live out ActionAid's values in all of their work and to support the decentralised way of working.

This is a tall order. But it could potentially lead to finance staff becoming champions of the decentralised way of working. Some practical ideas might include:

- Explicit reference to leadership and nurturing commitment to ActionAid's values in Heads of Finance and senior International finance staff's job descriptions and person specifications.
- Providing training and support to develop leadership behaviours and techniques.
- Using the International Finance Conference (and other networking events) as a platform to inspire leadership.

There are practical difficulties in exploring these issues. The International team may have to explore ways of strengthening and maintaining their own commitment to ActionAid's values. Regular field visits may help achieve this.

Inspiring leadership is a difficult thing to do; it may be appropriate to source additional assistance in this area. (Does ActionAid's HR/OD team have a role to play here?) The skills required may be different from the skills currently available in the international and regional teams. The level of resources may also need review.

It may be necessary to cut away some current practices that reinforce a corporate, managed view of the organisation. For instance, the International Finance Function Report is currently under much-needed review, which should result in it being much simplified and have less of the feel of an 'end-of-term report' by finance teams. It may also be appropriate to change its name so as to avoid re-inforcing the concept of a single "international finance function".

There is currently a level of discomfort with too much overt leadership from the centre, possibly due to concern about encroaching on the decentralised approach. The Heads of Finance also bring their own different experiences and professional approaches. ActionAid is where it is: it may take some time for Heads of Finance to move towards more of a leadership role. Any progress in this direction would be constrained by this speed. In addition, Country Directors may not all embrace this approach. There may be work to do to encourage them to recognise the contribution that finance teams can make.

In some areas central authority does have to be maintained – for instance in holding responsibility to set standards, collating financial information and treasury management. There will continue to be a difficult balance to strike. However, internationalisation will push the balance further away from corporate management and towards leadership.

### **6.2.2 ActionAid Financial Management Framework**

The International team recognises that there is scope to review and strengthen the ActionAid Financial Management Framework (AFMF). In particular, it may be appropriate to do this with a more explicit reference to the relationships between the centre and Country Programmes – and to how the AFMF is used in practice.

Currently, the AFMF includes various different types of content, including:

- Required local practice to meet local statutory requirements,
- Required local practice to meet UK accounting needs and to maintain basic controls,
- Examples of good practice,
- Some explicit and some implicit standards,
- International policies.

There is varied use of “should”, “must” and “may” which at times is confusing. The language tends to be technical and the writing to focus on the UK point of view. The statements of principles and standards appear to be inconsistent and incomplete.

It may be possible to revise the AFMF as a practical tool for financial management leadership for development. This could start with a statement of values and could potentially revolve around a number of carefully defined standards. It may also be possible to clarify some of finance teams’ key responsibilities in support of development work, such as capacity building for partners.

### **6.2.3 Communications**

ActionAid works across many different countries, languages and cultures. Communication is made even harder by the volume of work that most staff handle. People just do not have the time to work through lengthy reports (like this one) in detail.

There may be significant scope to increase the quality of communications within the organisation, so that key messages are distilled into relevant, easily-digestible forms. This may also have the benefit of forcing greater clarity of thought on the part of the

person writing communications. This process has already been started in Alps, with its insistence on using executive summaries.

However, many documents still lack executive summaries. Others, like the ActionAid Financial Management Framework do not lend themselves to an executive summary. As discussed in other Taking Stock reports, ActionAid has had trouble communicating the key concepts associated with the Rights Based Approach and gender.

### **Recommendation 9:**

ActionAid's International Finance Team should consider whether and how it could develop simple, accessible ways of communicating its key standards, principles and structures. This may be the single most important step it could take to increase staff's understanding of them – and so of increasing adherence to them.

For example, the International Finance Team could make commitments:

- to use Plain English principles in all its documents<sup>16</sup>;
- to keep documents short where possible and to meet the Alps requirement of including executive summaries where not;
- to avoid the use of acronyms, wherever possible;
- to present information with the readers' needs and constraints in mind.

Of course it is difficult to present complex and dry information in a simple way. It takes time, effort and skill. But, unclear or inaccessible written communications can be a major barrier to international collaboration.

The International Finance Team could consider practical steps including recognising good practice (for instance at the International Finance Conference); providing training in these skills to staff; buying in communications expertise; clearly stating its commitment to effective communications; policing and not accepting bad practice.

#### **6.2.4 Practical resources for Country Programme finance teams**

The International Finance Teams currently share some examples of good practice between Country Programme Finance Teams. It may be possible to do this in a more systematic way and perhaps to build up a resource-bank of useful practical tools.

Many Country Programme teams are developing new ideas and practical ways of working, as mentioned in section 5. It seems likely that they would benefit from more structured ways of sharing their experience. This could include regular finance newsletters or sections on the intranet (including discussion boards).

The Internal Audit team is already doing this, using a newsletter to develop a sense of community; to encourage auditors to maintain their sense of purpose and values and to share technical points.

#### **6.2.5 Management information**

The International Finance Team provides management information to the International Directors, including summary figures in the Annual Finance Report. The International Directors and the International Finance Team need to continue to be careful about what information they review.

As discussed below, the figures currently available for expenditure on each theme (such as gender) are not reliable. There is limited benefit in providing this information. There may be some negative effects, including:

- providing partial information which may warp decision making,
- taking up the time of people preparing the information,
- undermining users' respect for financial information,
- reinforcing a corporate view of the organisation.

In the same vein, it may be worth reflecting on the value gained by measuring the total amount spent on finance teams around the world. The value may come in terms of measuring trends over time. But it may be more useful to look at this information at a Country Programme level. The aggregate information also risks reinforcing a corporate view of the organisation.

These issues will move into sharper focus through internationalisation. It will be important to think about what financial information ActionAid International needs – and to separate this question from what information may be available. These information requests have a significant effect on how people understand the organisation.

ActionAid International may consider that all it can usefully measure on the expenditure side is:

- (a) How much money is being spent where on what (by geographic locality and by natural cost classification), and
- (b) Some indicator(s) of the quality of the process by which it is spent.

This approach is based on the view that it is neither possible nor appropriate to try to measure outputs or outcomes of development work. Perhaps it is what ActionAid is doing already. These issues are discussed further in section 8.

## **7 Income**

I have not had the time to review ActionAid's different sources of revenue in detail during the Taking Stock process. Other reports provide a full analysis of fundraising and marketing. This section makes a few comments about income in relation to the report's main themes.

### **7.1 Variety of sources of income**

The main source of ActionAid's income continues to be regular committed giving from the UK, Italy, Spain and Greece. But over the last few years, ActionAid has diversified its sources of revenue and is now in a strong position for continued growth.

## Income by Type, 2001 – 2003

<i>All figures in £m</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Child sponsorship	39.3	30.1	32.7
Other regular giving	6.9	18.4	21.7
Official funding	10.0	13.0	16.0
Other	10.2	10.9	9.4
<b>Total</b>	<b>66.4</b>	<b>72.4</b>	<b>79.8</b>

Most ‘other regular giving’ income is generated through the Next Steps product.

‘Official funding’ includes income from official donors including the UK’s Department for International Development (DfID) and the EC. A small number of major agreements like Support to the International Partnership against AIDS in Africa (SIPAA), the Programme Partnership Agreement (PPA) and the Commonwealth Education Fund (CEF) account for a large proportion of these funds.

‘Other’ funding includes income from trusts and corporate donors as well as one-off donations made by individuals.

The table shows the success that ActionAid has had moving regular donors from Child Sponsorship to Next Steps. The amount of funds generated from official donors has also increased impressively.

Over the same period, the amount of funds raised directly by Country Programmes has increased from £6.6m to £14.0m. This is reflected at Country Programme level, for instance through the development of new relationships with official donors at the Country level and of new fundraising approaches to the public like Karm Mitra in India.

Some Country Programmes (such as ActionAid India and ActionAid Kenya) are not constrained by a lack of money. This is an enviable position, supporting a flexible and innovative approach. Others operate in much tighter circumstances, such as ActionAid Burundi which relies very heavily on official funding.

### 7.2 Risks of different sources of income

All forms of income bring risks as well as revenue.

The benefits of Child Sponsorship were mentioned above, in section 4. It has been a foundation stone of ActionAid’s decentralised way of working, providing flexible funds tied to a medium-term commitment to specific communities.

Child Sponsorship also brings significant disadvantages, including restrictions as to where funds can be used over the medium-term; restrictions to ‘child-friendly’ projects; the demands of communicating with sponsors and ethical questions about the nature of the relationships between the donor, ActionAid and beneficiary communities.

The major risk associated with any other form of funding is that it undermines ActionAid's way of working.

As discussed above, Next Steps income has not all been allocated and used. Next Steps income allows tremendous flexibility at the national level: funds can be used to support any initiative in a country.

But there is also the risk that *some* of these resources will not be used to make medium-term commitments to communities. If commitments are not explicitly made, then interventions may suffer from short-term horizons. In addition, the mechanisms used to make decisions may become bureaucratic (as they are in many other organisations, the European Commission being an extreme example).

ActionAid has had considerable success in using its credibility as a development agency to source funds from official funds. There are substantial amounts available from many different donors.

However, the risks associated with this source of funding include:

- Bureaucratic, top-heavy accountability requirements (at odds with Alps);
- Restrictions on the way of working as well as loss of flexibility in project activities;
- Short-term planning horizons.

It may be possible to influence some donors' policies. It is highly impressive that ActionAid Kenya persuaded DfID to accept its country review (prepared under Alps) as its narrative report. But, it would be an enormous job to try to change a single donor's global policies. Few donors take as considered and responsible approach as ActionAid.

In India, an excellent start has been made to fundraising from businesses and the public. This is based on developing ActionAid's brand. This could become a major source of funds for the organisation.

However, there is a major risk that protecting the brand may come into conflict with development practice. Many international NGOs suffer from some divergence between their brand and the reality of their activities. At its worst, this causes international NGOs to put their brand ahead of the complexities of situations in the field. A simple example may be that ActionAid India may feel some constraint on taking up radical political stances if they are at odds with middle class donors' aspirations.

All of the risks associated with different sources on income need to be recognised and managed. This may need more interaction between programme, finance and fundraising teams than has been the case with child sponsorship.

It may be appropriate to consider how finance teams can support these processes. In particular, three year plans may provide a good opportunity to bring people together.

However, the major risk is that fundraising for different sources of revenue distracts management attention from ActionAid’s core activities and ActionAid’s way of working. Many approaches to fundraising bring urgent short-term priorities (for instance, to write donor reports or to meet donors’ operating requirements).

This risk appears to be heightened as particular features of the way of working may not have been explicitly recognised. Finance teams could play an important role in ActionAid’s continued development by championing these central principles.

**Recommendation 10:**

ActionAid’s finance staff should consider how they can contribute to recognising and managing the risks associated with different sources of funding.

**8 Cost analysis**

**8.1 National and international cost analysis**

ActionAid currently analyses expenditure in a number of different ways, including:

Type of analysis <sup>1/</sup>	Categories
By geography and by level (Regional, national and local levels)	<ul style="list-style-type: none"> <li>• Project work</li> <li>• Gender work</li> <li>• Advocacy/influencing work</li> </ul>
Natural Cost Classification	<ul style="list-style-type: none"> <li>• Grants and community inputs</li> <li>• Staff costs</li> <li>• Travel and transportation</li> <li>• Office and service costs</li> <li>• Capital expenditure</li> </ul>
Statutory Cost Classification	<ul style="list-style-type: none"> <li>• Project costs (including grants)</li> <li>• Support costs</li> <li>• Fundraising and publicity costs</li> <li>• Management and admin (UK only)</li> </ul>
Thematically	<ul style="list-style-type: none"> <li>• Food Security</li> <li>• Education</li> <li>• HIV/AIDS</li> </ul>
Horizontal Group	<ul style="list-style-type: none"> <li>• Food Rights Campaign</li> <li>• Education Working Group</li> <li>• HIV/AIDS Campaign</li> <li>• Governance</li> </ul>

The Global Progress Report provides a summary of expenditure by country and by level. It also reports on spend by theme. The report links expenditure to descriptions of key activities and the number of people reached, to provide an overview of ActionAid’s impact.

The Annual Accounts provide a summary of expenditure by Statutory Cost Classification. The International Directors consider all of the above cost

categorisations to different extents. In particular, they look at trends in countries' Support Costs as an indicator of how efficiency is changing over time.

At country level, country management teams use the Natural Cost Classification to understand their expenditure.

## 8.2 Local level cost analysis

At the local level, staff classify costs in different and more detailed ways. They do not follow a single standardised approach. This allows significant flexibility and helps ActionAid to support partner organisations' financial systems, rather than imposing their own.

The cost classifications used by project staff for the two projects described in section 3 are:

Sugar Campaign, Kenya	Urban Disadvantaged Children, Dessie, Ethiopia
Lobbying	Saving and credit
- national (e.g. media ads)	Health
- regional (farmers)	Education
Civic Education	Non-sector
- farmers (e.g. radio ads)	Admin
- election monitoring	Advocacy
- civil society forums	Gender
Research	
Support	

These cost classifications were developed by project and partner staff, as appropriate ways of understanding the costs associated with each project. They are organised in fundamentally different ways: one by activity, the other by sector of intervention. But they are both equally valid, if project staff find them useful.

It is important to note that these cost classifications do not include ActionAid staff costs or a proportion of ActionAid's office overheads. In the case of the Sugar Campaign, ActionAid staff played a central role in creating and implementing the project. No description of the project can be complete without including a description of their contribution.

### Recommendation 11:

ActionAid should consider including a proportion of staff costs and central office overheads in Development Area level accounts of project costs and including this in any public statement of project costs. This could be based on simple annual or monthly assumptions about the amount of time that staff spend working on different projects or a detailed approach based on timesheets.

## 8.3 Issues for further consideration

### **8.3.1 Why collect all this financial information?**

It is always useful to review why information is being collected: who uses it for what purposes and does this justify the effort (and the cost) of collection?

At the local level, project staff use financial information to plan and monitor the implementation of specific projects. This is necessary for responsible development action. At this level, project staff have the opportunity to consider questions of cost-effectiveness and value-for-money.

At the national level, some information is used to inform senior management decisions. Other information is collected to meet the demands of Regional and International offices. This divergence is due to two factors: the different levels of engagement by Heads of Finance and the types of information requested by Regional/International teams.

(It is important to look at these two issues separately. International teams may have legitimate concerns about the quality of financial analysis at national level. One response may be to ask for more detailed information. But this may increase the bureaucratic burden and discourage Heads of Finance from closer engagement with programme issues.)

Information is aggregated at national, regional and international level for several reasons, including:

- a) Meeting statutory requirements to publish aggregated accounts,
- b) Describing how ActionAid spends the funds it has available (both internally for management and trustees and externally for fundraising), and
- c) Comparing the efficiency of similar activities.

Each one is considered briefly below.

#### **a) Statutory requirements**

In the UK, ActionAid rightly meets the requirements of the Statement of Recommended Practice published by the Charity Commission in its published accounts. This makes it easier to compare ActionAid's accounts to other similar UK charities' accounts.

However, internationalisation has removed this requirement from ActionAid International. The legal requirements in the Netherlands are light and allow a great deal of flexibility in how accounts are presented. This provides an excellent opportunity for ActionAid to restructure its aggregated accounts.

The International Finance Team is currently reviewing this, drawing on international accounting standards and discussions with similar organisations which have recently considered the same question. This is discussed further below.

#### **b) Describing how ActionAid spends its funds**

It is often tempting to analyse data in different ways. It can be interesting to see how different patterns of expenditure are played out across an organisation. However, in any organisation there are significant costs associated with collecting information. In ActionAid's case, the costs include three factors:

- the time required to generate and summarise information,
- the risk of exerting a centralising influence, and
- the risk of pulling finance staff away from supporting project staff.

This means that any request for information at the national and international level must be based on a strong case on the benefits of collecting that information: in other words, how that information will be *used*.

Accounting works by classifying costs to exclusive categories, like salaries or transport costs. This works for the natural cost classification described above. But it does not work for spend by theme or by activity. Three examples show why:

- The Savings and Credit groups run by ActionAid's partner in Dessie, Ethiopia are exclusively for women. These activities have a significant gender component. But they cannot be classified under both 'savings and credit' and 'gender' in the project's cost classification, so they only appear in 'savings and credit'.
- One otherwise forward-looking Country Programme has struggled with this question. Rather than exclude large swathes of work, they work out a figure for their total expenditure on gender by dividing total expenditure in two. They explained – with great embarrassment – that this is because roughly half the people they work with are women!
- In rights-based work, staff costs are a major component of project implementation. Staff play crucial roles in informing, facilitating and encouraging local groups. They are central to the process of empowerment. It is not accurate to describe ActionAid's work by separating staff costs from 'project costs'. The staff costs are *more* important to fighting oppression than wheelbarrows and bicycles.

These examples suggest that the wrong question is being asked: accounts cannot describe development this way. Development expenditure cannot meaningfully be aggregated across different projects by theme. This is widely acknowledged within ActionAid: the figures provided for spend by theme or activity are always taken with a large pinch of salt. But it still takes time and money to prepare them.

### **Recommendation 12:**

ActionAid should consider what financial information it can collect at the national and international levels that actively supports what ActionAid is trying to achieve and how it is organised to achieve it.

This is a complicated question that can only be approached from a clear conceptual understanding of ActionAid's activities. Any answer is likely to be an imperfect compromise.

ActionAid Brazil has started allocating expenditure to “Rights based work” or to “Service delivery work”. These categories are separate conceptually, although they overlap practically in programme work. Some projects carry out both types of activities (like the Dessie project described above). But it may not take too much work to allocate costs to each category, making simplifying assumptions where necessary.

It is possible to categorise costs by social group of people helped. This is already done through the geographical classification. It could be extended to cover social groups that are not geographically defined, for instance people living with HIV/AIDS. However, geography remains particularly important and may be the most simple available compromise for describing ActionAid’s work in financial terms.

Within the rights-based approach, it would be possible to explore whether costs could be categorised according to the oppressive structures being fought. For instance, different structures could be categorised at the international, national, local and family levels.

This approach would have the advantage of helping decision makers relate costs to the different levels of injustice that Fighting Poverty Together aims to tackle. But it would be difficult. In addition, the same project may fight several different structures at the same time, so the categories may not be exclusive.

My general sense is that it may only be possible to describe ActionAid’s work by activity in support of specific social groups, commonly defined by geography. Every situation is different; ActionAid’s work cannot meaningfully be described by issue (as discussed in section 3). This translates into existing reports along the lines of “we spent £xx thousand pounds in this village in this DA/DI in this country”.

This may be seen as a step backwards, as some staff feel that ActionAid should move away from geographical boundaries. But, this has proved to be the most effective way of describing ActionAid’s work in financial terms to date. It is relevant for a great deal of rights-based work, as people are often organised (and oppressed) on geographical terms.

Rather than look at different categories of expenditure analysis, it may be useful to explore looking at process indicators which provide some level of reassurance about the quality of development work carried out with funds. This is discussed further below.

### **c) Comparing the efficiency of similar activities**

ActionAid may be interested in comparing the efficiency of similar activities carried out in the same place at different times or in different places at the same time. Financial measures can help with the former; they are much more problematic with the latter.

The statutory cost classification provides a basic split of expenditure between project and support costs. Different Country Programmes interpret these classifications in different ways. The classifications are also inherently limited: the category ‘project

costs' includes grants made to partners which in turn may include a substantial proportion of the partner's overhead costs. Some Country Programmes are simply more expensive to run than others – and this may bear a limited or no relation to the impact of ActionAid's work.

However, Country Programmes tend to analyse their costs in the same way year after year. So, improvements in efficiency may be reflected in proportionally decreasing support costs. Of course, this only provides a simple historical comparison rather than an absolute based review of efficiency: if a Country Programme was 30% efficient last year (whatever that might mean for development) and moves to 35% efficiency this year, then that might look like progress but still be a very inefficient way of working.

This approach could be complemented by other initiatives which increase confidence that funds are being applied effectively: for instance, investing in sustaining programme staff's commitment to ActionAid's values and helping them consider different approaches to programme design.

### 8.3.2 Process indicators for rights-based work

It may be possible to develop simple, useable process indicators which help ActionAid gauge whether it is likely that responsible local decisions have been taken. If this could be done, then ActionAid could report that it is "confident that £xx thousand has been spent to help these people in this place to meet their needs and fight oppression".

This is ambitious, and may turn out to be unworkable. The idea would certainly need further development. But it may be worth further consideration as a way of partially describing the quality of ActionAid's work.

For example, process indicators might include:

Indicator	Evidence	Interpretation
Quality of financial control at DA/DI level.	Internal Audit, rating overall financial control on a simple scale of 1-5.	"We can/cannot account for all expenditure."
Quality of local accountability to communities (in line with Alps requirements).	Internal Audit, rating overall local accountability on a simple scale of 1-5.	"We are/are not accountable to local communities for all expenditure and shape interventions in following years accordingly."
Quality of community organisations supported/built.	Programme staff, rating aspects of organisational development on a scale of 1-5.	"We have/have not helped poor and marginalised people build robust and sustainable organisations to assert their rights."
Steps taken to sustain staff members' commitment to ActionAid's values.	HR, measuring amount of training or number of protracted field visits.	"We actively encourage/do not encourage ActionAid's staff to remain committed

	(These are not very strong: better evidence could probably be gathered.)	to our values and to act in line with them.”
Quality of financial involvement in senior decision making.	Internal Audit, reviewing key indicators including number and quality of management accounts and whether the Head of Finance is a member of the senior management team.	“We do/do not consider financial issues like getting the most value from our limited funds when we make important programme decisions.”

These indicators could be directly useful to national and local level programme staff as well as to international staff. They focus management attention on some of the key building blocks necessary for supporting effective development.

It may be useful to try to identify other key building blocks and develop indicators for them. For instance, some other indicators that would be immensely hard to measure but even more fruitful to understand include: the quality of local leadership; a satisfaction rating by communities; overall performance rating by other key stakeholders including government or peer NGOs or partner NGOs. Of course, they are all only indicators, and liable to distortion.

The Participatory Review Processes set up by Alps provide a loosely-structured framework for discussing many of these issues. This is an important step. It may not be possible to quantify them without irreparably damaging the review processes. But it may be possible to develop the concept further.

### 8.3.3 A note on cost-effectiveness

Cost-effectiveness compares the cost of a project’s inputs to its outcomes. It only has limited use as a performance indicator for ActionAid. It is no coincidence that the section labelled ‘cost effectiveness’ in the recent review of ActionAid Bangladesh’s Country Strategy Paper contains a discussion of cost analysis which is not compared to impact.

Impact is notoriously hard to measure for NGOs, in particular in relation to key rights-based outcomes such as empowerment. It certainly can not be quantified in any way that allows comparison between projects, even for the range of service delivery work that ActionAid carries out.

In addition, cost is not necessarily the most important factor in relation to inputs. Quality of staff contribution may be much more important. Minimising cost is important but not the most first priority.

NGOs have to aim for “effectiveness”, defining that concept in a way that reflects their core aims and objectives.

### 8.3.4 Statutory cost classification

The international finance team is discussing ways of combining the natural cost classification and the statutory cost classification. This would be a useful way of simplifying the returns sent from Country Programmes to the centre.

There is considerable latitude within the UK Charity Commission's Statement of Recommended Practice (SORP) in relation to the definition of statutory costs. For example, some of ActionAid's peer NGOs in the UK (including SC-UK and Oxfam<sup>18</sup> GB) account for *all* of their country level expenditure as 'project costs'. This justifiable approach increases the appearance of efficiency set out in their accounts, but provides no guide to the quality of work they deliver.

Even after internationalisation is complete, ActionAid UK will have to continue to prepare annual accounts in line with the SORP. ActionAid UK could almost certainly justify accounting for all of its transfers to other ActionAid organisations as 'project costs'. This would effectively remove the current statutory constraint to cost classification.

However, the International Directors currently use the statutory cost classification as a rough measure of efficiency. Perhaps this could be considered within the review recommended below.

Country Directors and International Directors should consider taking the opportunity of internationalisation to review what financial information they use to describe ActionAid's work.

The users of information may find it helpful to consider the use of each of the five classifications mentioned above compared to the costs of preparing and collating the information in the light of alternative types of information available which may provide a measure of efficiency or effectiveness.

## **9 A note on internationalisation**

As mentioned in several other sections, internationalisation reinforces the basic analysis set out above. It will lead to more decentralisation and less direct control by ActionAid International. Over time, it is expected to lead to a shift in the balance of power: ActionAid International may need to demonstrate how it adds value to national ActionAids beyond providing funds.

This creates some real challenges for ActionAid International. There is an urgent need to help national ActionAids think about how to put the concept into practice. The change brings risks, including diverting senior management time at the County Programme level to new local governance issues and creating new demands for new types of accountability.

ActionAid International's finance teams have already started getting to grips with the change. For instance, accounting systems have been separated. However, they may find it necessary to continue re-conceptualising aspects of their role. They will have to work out how to continue to tread the tight-rope between exerting control and providing support, but in a different organisational context.

As mentioned above, the change provides an opportunity to review the information that ActionAid International requests from Country Programmes. Other practical issues like the mechanism for cash disbursements may need review: how much control is the centre going to exert over cash disbursements? What level of authority will the centre have?

As a final thought, membership of ActionAid International may act as some kind of quality mark for NGOs. It will demonstrate commitment to Fighting Poverty Together, to collaboration and to ActionAid's standards. Given the widely variable quality of work carried out across the NGO sector, it may be interesting to consider whether this quality mark could be extended more widely beyond ActionAid.

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<sup>1</sup> "Fighting Poverty Together: ActionAid's Strategy 1999 – 2005".

<sup>2</sup> For more information about Sucam see: [www.kenyalink.org/sucam](http://www.kenyalink.org/sucam).

<sup>3</sup> "ActionAid Kenya – Organisation Development Casestudy", Claire Helman and Peter Moore, August 2002.

<sup>4</sup> "Organisation Development Annual Progress Document 2001", May 2002

<sup>5</sup> "A Review of CSP II Update of ActionAid Bangladesh", Hossain Zillur Rahman et al, March 2004, Executive Summary, Paragraph (xiii).

<sup>6</sup> "An Autobiography", M.K.Ghandi, 1927

<sup>7</sup> Finance Strategic Plan 2000 - 2004

<sup>8</sup> Internal Audit Plan 2004 – 2006.

<sup>9</sup> Trustees' Report and Accounts for the year ended 31 December 2002.

<sup>10</sup> Reported at the International Finance Conference held in Bangkok in June 2004; not included in the International Finance Function Report.

<sup>11</sup> Figures from Annual Financial Report tables 2002 and from staffing analysis by Katriona Street, June 2004.

<sup>12</sup> Extract from "DA1 Cost Effectiveness Analysis, 1992-2003", by Tran Ngoc Tue.

<sup>13</sup> "Fundraising and Funding – some thoughts for discussion", by Nigel Saxby Soffe, May 2004.

<sup>14</sup> "A Stitch in Time?", by Valid International, December 2003 available from [www.dec.org.uk](http://www.dec.org.uk).

<sup>15</sup> Available from [www.mango.org.uk/resources](http://www.mango.org.uk/resources).

<sup>16</sup> See [www.plainenglish.co.uk](http://www.plainenglish.co.uk) for more information and excellent free guides.

<sup>17</sup> Set out in Appendices 2 and 3 of the ActionAid Financial Management Framework.

<sup>18</sup> This change in Oxfam's accounting policies will come into effect in their 2003/04 published accounts.

*Please note that these endnotes only contain notes of specific references made in the report. They are not a complete list of documents reviewed.*