

Social Accountability Standards (SAS) 10

Ratio Analysis

OBJECT

10.01 The main objective of this draft standard is to provide guidance on the use of ratio analysis in assessing the social accountability of an NGO.

EXPLANATORY STATEMENT

10.02 Ratio Analysis, hereinafter referred to as RA, is a comparative study between two variables in order to derive certain meaningful informations. For example, in a military store, if there are 2000 guns and 500 bullets then such figures do not make any sense independently except being statistical data. But if we say that the ratio between guns and bullets is 4:1 then certainly the information becomes very meaningful and may even require immediate action. In this example, the military personnel may realise that there is only one bullet available against four guns, which may result in further and immediate procurement of bullets.

10.03 From the above example, it can be seen that certain informations may not make too much of sense if read individually. But if we make a comparison between two informations or variables then suddenly we may get a very deep insight into the state of affairs with the help of the ratios.

10.04 RA compares 2 sets of informations and provides the relative strain of each other. The common features of RA are as under :

- A ratio is the relationship between two variables
 - These variables should have logical relationship with each other
 - Comparative calculations of financial figures are brought
 - The ratios derived are interpreted. Such interpretation may or may not be on the basis of predetermined norms.
-

10.05 Ratios generally used in profit sector as under :

- Working Capital Turnover Ratio
- Current asset Turnover Ratio
- Inventory Turnover Ratio
- Average Holding Period Ratio
- Raw Material Inventory Turnover Ratio
- Work-in –process Inventory Turnover Ratio
- Finished-goods Inventory Turnover Ratio
- Receivables Turnover Ratio
- Average Collection Period Ratio
- Cash Turnover Ratio
- Cash Holding Period Ratio
- Payables Turnover Ratio (Times)
- Average Payment Period Ratio

10.06 Similarly NGOs can also make meaningful analysis of its state of affairs through use of Ratio Analysis. Some of the important ratios are discussed herewith.

CORPUS FUND TO GENERAL FUND RATIO

10.07 A corpus fund to general fund ratio gives an idea about the proportion of perpetual long term funds in comparison to the unrestricted funds available. Suppose the ratio is 1:20, which means the corpus fund is Rs.100 and the general fund is Rs. 2000. In such a case the NGO can consider increasing the corpus fund by transferring some fund from the general fund. On the contrary if the ratio is the other way round i.e. 20:1, it would imply that the NGO is accumulating and hoarding too much of funds with practically no resources available for its general activities.

10.08 *It is desirable that a healthy balance is maintained between corpus fund and general fund, 1:1 may denote an active as well as relatively sustainable NGO.*

CORPUS FUND TO RESTRICTED FUND RATIO

10.09 This ratio provides a comparison between the corpus fund and the restricted funds of the NGO. The balance sheet of an NGO may look very healthy due to large amount of restricted fund but it would not mean that the NGO is financially healthy or sustainable as the restricted funds do not belong to the NGO. With the help of this ratio an NGO can ascertain how healthy and sustainable it is in terms of finances.

10.10 *The ratio should not be unduly lopsided on either side. A very high corpus would imply that the NGO is comparatively dormant and a very low corpus would denote insecurity about its future.*

RESTRICTED FUND TO UNRESTRICTED FUND RATIO

10.11 Both restricted fund and unrestricted fund may be used for various activities but unrestricted fund are within the discretionary powers of the NGO. With the help of this ratio an NGO can know the quantum of discretionary funds available for designation of activities, of its own choice. When the unrestricted funds are seen in proportion to the restricted funds then it is easier to analyse the materiality and importance of such funds in relation to the overall activities.

10.12 *Comparative existence of unrestricted funds show the ability of the NGO to mobilise funds from its own sources and to that extent it reflects upon its ability to sustain itself and its programme.*

DESIGNATED FUND TO RESTRICTED FUND RATIO

10.13 Both designated fund and restricted fund have been set aside for specific purposes and therefore changes cannot be made in their application pattern. This ratio helps the NGO in analysing the quantum of funds it was able to generate and designate in comparison to the restricted funds. Greater quantum of designated funds reflects financial and social soundness of the NGO.

10.14 *If there is a healthy ratio of designated funds it denotes the availability as well as the commitment of the NGO towards specific programme from its self generated funds.*

CORPUS ASSET TO PROJECT ASSET RATIO

10.15 Corpus asset are the long term assets available with the NGO. Project asset are generally created from restricted fund and belong to the respective fund/donor. In a way project asset do not belong to the NGO and at the end of the project period they are either merged with corpus assets or disposed off as per the terms of the project agreement. This ratio provides an insight into the net worth and the financial strength of the NGO.

10.16 *If the quantum of corpus asset is high then it implies that the NGO has greater ability to sustain in the long run. And if the quantum of project asset is higher then it implies that the NGO is able to handle large number of projects but its sustainability in the long run could be a matter of concern.*

TOTAL INCOME TO EXTERNAL GRANTS/DONATIONS RATIO

10.17 This is a very important ratio. Normally NGOs are largely dependent on external sources for their activities. NGOs also have certain income of their own, which could be through

- income generation activities
 - interest earned from various unrestricted fund
 - rent received
 - membership fees
 - miscellaneous sources, etc
-

10.18 The income from own sources reflect sustainable and long term attributes of the NGO. On the other hand external funding reflect the ability of the NGO to enter into meaningful partnership with other stakeholders, however it may not reflect attributes of long term sustainability and independence.

10.19 *Through this ratio one can analyse the quantum of dependence of external funding. It would be very useful if this ratio is analysed for the past 4 to 5 years. Through such an analysis one can find whether the NGO is making successful efforts towards becoming financially independent in the long run.*

FUND BALANCES TO INVESTMENT RATIO

10.20 It is very important to see that what proportion of the closing fund balances is invested in proper securities or is held in the bank. It may so happen that the funds are showing very high balances but they are supported by inferior or fictitious asset. Some of the instances are as under :

- A loan could have been given to some other NGOs/functionaries
- Programme and other advances might have been given to staff and other functionaries
- Immovable properties or dead investment might have been made

10.21 *This is one of the most important ratio because unless a fund remains invested properly, balances available are meaningless. An analysis of the quality of the asset available against each fund is possible through this ratio. Ideally the ratio should be 1:1 in terms of qualitative investments available against the fund balances.*

ADMINISTRATIVE EXPENSE TO PROGRAMME EXPENSE RATIO

10.22 As the nomenclature suggests this ratio is important in order to know the cost

of implementing the projects and programmes. Very high administrative expenses would denote that the funds available for programme are reduced. And very low administrative expenses may raise issues pertaining to the systems and quality of the programme. There is no benchmark on the percentage of administrative expenses and it also varies according to the nature of work.

10.23 *All NGOs should make an annual declaration of the ratio of administrative expenses to programme expenses. It is also necessary that administrative expenses of the NGO and administrative expenditure pertaining to the programme are also distinguished.*

GENDER EQUITY IN HUMAN RESOURCES RATIO

10.24 A healthy male female ratio right from the board to the grassroots level reflects the ability of the NGO in succeeding in mainstreaming and integrating women in all sphere of work.

10.25 *A 1:1 gender ratio should be considered as ideal unless the specific traits of the activity or the function warrant otherwise.*

EXECUTIVE TRAVEL VS. PROGRAMME STAFF TRAVEL RATIO

10.26 The work of NGOs being spread in remote places of the country requires huge amount of travel expenses. Therefore it is important to analyse the quality and relevance of such expenditure. The travel by senior management and the board is essentially administrative in nature, therefore it is desirable to distinguish it from the programme travel cost.

10.27 *It is desirable that the ratio of programme travel is higher than the administrative nature travel.*
