

## SUPPORTING TRANSPARENT MANAGEMENT OF COMMUNITY FINANCES



**When communities charge fees for the use of community land and natural resources, levy fines against people who violate by-laws, or create other income-generating efforts, they must create clear systems that regulate how this money is managed and spent.** If well-managed and well-used, revenue generated from community lands and natural resources can be used to realize a community's vision, build necessary community infrastructure like roads and schools, and support community-driven local development. However, if a community does not manage its finances well, revenue generated from fees and fines may lead to corruption and conflict.<sup>1</sup>

### HOW TO PREPARE COMMUNITIES TO MAKE BY-LAWS FOR TRANSPARENT MANAGEMENT OF COMMUNITY FUNDS?

To support communities to make by-laws that ensure that their Land Governance Council/leaders will manage community finances in a responsible, secure, and transparent manner, facilitators may want to spend time *during the by-laws drafting process* training community members about the basic principles of good financial management and record keeping. What they learn can then influence the rules they make. Facilitators should ensure that the community's by-laws include clear rules that address the following questions:

- How will community money (generated from fees, fines, rent or gifts) be collected?

- How will community money (generated from fees, fines, rent or gifts) be managed? Who will manage it?
- How should the Land Governance Council report to the community on the money raised from fees, fines or rent?
- What should community money be used for? (Community development projects, building schools, roads, pumps, distributed equally among households, etc.)
- Who will decide what happens to community money? How will the community participate in decisions about how to spend community money?
- If the community opens a bank account, what procedures must community members follow for depositing money into or withdrawing money out of the account?

When facilitators introduce these concepts to communities, they should keep the information simple, clear and straightforward. The goal is only to provide communities with the information they need to draft good by-laws and make sure that their leaders/Land Governance Councils are managing their finances responsibly and transparently.

**Who will manage community funds?** If the Land Governance Council election process is inclusive and participatory, it is likely that the community will allocate financial management responsibilities to its newly-elected Land Governance Council. Alternatively, if existing community leaders are trusted and respected, the community may allocate this responsibility to them.

1. The information in this chapter is geared toward communities that collect and manage small amounts of money from fines, fees, taxes, etc. Communities that generate large amounts of money from revenue sharing agreements with large-scale investors will need more comprehensive financial management systems.

## BASIC PRINCIPLES OF GOOD FINANCIAL MANAGEMENT AND RECORD KEEPING

Regardless of who manages its finances, a community must put in place systems and structures to make sure that its leaders or Land Governance Council members are handling the funds in an accountable and transparent manner. While each community will create its own “best-fit” financial management system, all communities should ensure that the following principles are reflected in their by-laws and shape their financial management and record keeping systems:

- 1. Integrity.** Members of Land Governance Councils/leaders must operate with honesty and integrity, and declare personal interests that might conflict with their duties.
- 2. Accountability to all community members.** Community members have the right to know how much revenue is generated from community lands and natural resources and how this money is being used. Land Governance Councils/leaders must explain their decisions and actions and consult the community on all major financial decisions.
- 3. Transparency.** Land Governance Councils/leaders must openly share their financial accounting systems (including budgets, ledgers, etc.) with the entire community. Councils/leaders must prepare accurate, complete and timely financial reports of all money spent and received.
- 4. Stewardship.** Land Governance Councils/leaders must take good care of their community’s financial resources, making sure that the money is used in a way that allows the community to grow and prosper; funds should not be mismanaged or wasted.
- 5. Compliance with accounting standards.** Systems for keeping financial records and documentation must observe accepted accounting standards and principles. Any accountant should be able to understand a community’s financial records.
- 6. Balanced books.** Communities must not spend more money than they receive. Any spending should be based on actual funds raised.
- 7. Consistency:** Communities should follow the same financial procedures every single time that they receive or spend money.

## HOW TO SUPPORT COMMUNITIES TO RESPONSIBLY MANAGE THEIR FUNDS OVER THE LONG TERM?

Once a community has harmonized its boundaries, completed its by-laws, elected its Land Governance Council, and successfully documented its lands, facilitators should revisit the topic of financial management and support the community to establish good financial management practices.

If feasible, facilitators should consider convening a meeting devoted entirely to training the Land Governance Council, any watchdog groups, and all interested community members in more detailed financial management practices. (This training may support community livelihood development, as community members interested in starting small businesses will also benefit from learning this information.)

If the facilitating organization has a financial administrator with good public speaking skills and the ability to present financial accounting practices clearly and simply, it may be useful to invite this colleague to the field to provide this training.

The following five practices are critical to good financial management:

- 1. Establish a bank account, or create a cashbox with multiple locks.** If the community has access to a local bank, all revenue generated by the community should be kept in a bank account.<sup>2</sup> Keeping large amounts of cash on hand often leads to corruption, misuse of funds, and conflict. Any bank account opened should be registered in the name of the community, with permissions to access the account given only to groups of community members, not one

2. Rules for establishing bank accounts vary, but in most countries communities must be registered as a “legal entity” before they can open an account. Facilitators should research legal requirements for opening bank accounts so that they can properly advise communities on the procedures they may need to follow.

specific individual. Community by-laws should clearly state rules for who may deposit or withdraw money from the community's bank account. All community bank accounts must have at least three key holders or signatories; a single community member should never be able to withdraw money from the bank account without other community members present. Revenue generated from community lands and natural resources should never be kept in an individual community member's bank account.

If a community is unable to open a bank account, all cash should be stored in a cashbox that has at least five different locks so that no single community member is able to access the cash without at least four other people being present. Multiple lock cashboxes can be purchased in many countries or built by local artisans.

**2. Handle cash properly.** Cash can be easily misplaced or misused, so it must be handled carefully. The following are basic rules for handling cash transparently and responsibly:<sup>3</sup>

- **Be clear about who is responsible for handling community money.** Everyone in the community should be completely clear about who is responsible for handling cash, and their specific responsibilities. If a cashbox is used, the keys to the cashbox should only be given to trusted, responsible, authorized individuals. Regardless of where funds are kept, the community should ensure that there are clear, written rules about how the money can be accessed and used.
- **Keep money related to lands and natural resources management in its own place, separate from other community funds.** Never put cash received into a drawer or box with other community money. This will cause errors and confusion when the community tries to account for its money. All money coming into the community should be put directly into a "land and natural resources" cashbox designated specifically for money generated from natural resources-related fees and fines, then (if the community has a bank account) brought to the bank as soon as possible.
- **Always give receipts for money received.** Proper issuance of receipts helps to protect misuse of cash. Communities should purchase a pre-numbered duplicate receipt book and write all receipts for money received in blue or black pen (so they cannot be changed or forged). Receipts should include the date that they are issued. The community should keep copies all receipts issued. Blank receipts should be kept in the cashbox so they are not abused.

- **Always get receipts for money spent.** Communities should make sure to get a receipt for every purchase and payment made using community funds; for example, whoever has been chosen to buy building materials for a community infrastructure project should be required to get a receipt for the money spent. If there is no receipt, there is no proof that the purchase or payment was made. Because sellers/workers do not always have their own receipt books, community leaders/members making purchases on the community's behalf should carry blank receipts with them and ask the sellers/vendors to fill them out to prove that the purchase/payment was made.

Similarly, if the community is paying someone to provide a service, the person who provided the service must be required to sign an invoice stating that he/she performed the service and received the payment. When paying for services, invoices should be marked as "paid," then dated and signed by the person who paid the money. Such record keeping is necessary to prevent the fraudulent re-use of invoices.

- **Restrict access to cash and have clear procedures for accessing this cash.** To ensure against corruption – or allegations of corruption – there should always be at least four trusted, responsible people (ideally, members of the Land Governance Council) present when opening cash boxes, envelopes and other sources of money.
- **Manage and monitor cash advances.** Any cash given to community members to work on community projects should be accounted for. If the community needs to pay people in advance for work to be done (so that they can buy materials), it is best to split the payment in half, paying half upfront and half when they have successfully completed the work. If a person is volunteering his or her time and requires money upfront (in order to buy materials), communities should consider asking for some kind of "deposit" that the community will keep until the person returns with the agreed supplies (something of comparable value, such as a tool or a chicken, that the community can use to recoup any money lost if the person spent the money frivolously or on unapproved purchases).

3. "Top Tips for Controlling Cash." *Mango: TT12 Controlling Cash*. Management Accounting for NGOs, Web. 22 Jan. 2015. <<http://www.mango.org.uk/toptips/tt12cash>>.

**3. Keep Clear Financial Records.** Maintaining up-to-date financial records is critical to proving good financial management – and discovering bad financial management or corruption if it occurs. To this end, communities should establish simple systems to keep track of their finances. Financial record keeping (called accounting) can be kept manually in a book of accounts or in a computerized format using accounting software. For a community with few financial transactions, a simple bookkeeping system is all that is needed. As revenue generated by a community increases, its financial management system will need to become more sophisticated. Financial accounting has two parts: 1) account books and 2) supporting documents.

- **Account books** are ledgers or notebooks where financial transactions are written down and recorded. If the community has more than one bank account/cashbox, each account should have its own book of account. A community’s “book of account” should have columns that explain: all payments made, all money received, to whom the payment was made, what the payment was for, the date the money was transacted, the receipt number, and other key information. A well-organized book of account will clearly show all money that came in, all money that went out, and how the money was used. Community leaders/the Land Governance Council should keep clear account books and make them available for all interested community members to review.

A sample account book is as follows:

Date	Receipt Number	Payee/Transaction Description	Transaction Category	Withdrawal payment (-)	Deposit credit (+)	Balance
01/01/15		Balance as of 01/01/15				\$1,000
01/03/15	1	<i>Water Pumps, Inc:</i> Water pump for irrigating community farm	Equipment	\$400		\$600
01/12/15	2	<i>Pipe Company:</i> Pipes for water pump	Equipment	\$100.00		\$500
01/15/15	3	<i>Palm Oil Corporation:</i> Monthly land rental payment	Land Rental Payment		\$1500.00	\$2,000
01/27/15	4	<i>Fencing Company:</i> Wire mesh to build fence around community farm	Construction material	\$300.00		\$1,700
01/31/15		Balance as of 01/31/15				\$1,700

- **Supporting Documents** are the receipts and invoices that provide proof of all the financial transactions that are written in the books of account. All receipts and vouchers should be cross-referenced with the account books and entered in chronological order according to date – in other words, every receipt should have a number, and that number should be entered into the account book. Then, the supporting documents should be kept in a file in the exact same order as they were recorded in the account books, to make it easy for anyone reading the account book to immediately find the receipt that corresponds to the record.

- 4. Carefully check bank statements.** If a community has a bank account, the account books should be checked against bank statements at least once a month to make sure that the community's own records match the bank's records so as to catch any errors or omissions made by the bank or the community and identify cases of fraud or misuse of funds. (This is called a "bank reconciliation.") Any major differences between a community's account books and the bank statements should be investigated and explained.
- 5. Prosecute misuse of funds.** Communities should regularly review their account books and receipts to look for fraudulent receipts, missing checks, or checks or money that have been issued for no clear purpose. (A community may even want to hire an independent auditor to help in this process.) If community funds have been misused or stolen, the community should immediately investigate the matter and hold a meeting to review the theft, impeach any guilty leaders or Land Governance Council members, and/or report the corruption to regional leaders and the police.

#### ADDITIONAL RESOURCES FOR FINANCIAL MANAGEMENT

If communities want to develop a more comprehensive financial management system, the following resources offer detailed instruction on how to do so:

- 1. *Financial Management Essentials: Handbook for NGOs***, by Management Accounting for NGOs (MANGO). This guide provides training on how to design a financial management system, make financial plans and budgets, generate financial reports, manage audits, and more: <http://www.mango.org.uk/guide/coursehandbook>
- 2.** MANGO has also created an ***Accounting Pack for NGOs***, which includes a simple, Excel-based accounting system designed specifically for small-scale organizations and a comprehensive user guide. <http://www.mango.org.uk/guide/mangoaccountingpack>
- 3. *Financial Management Training for Community-Based Natural Resource Management Organizations***, by the Namibian Association of CBNRM Support Organizations (NACSO), was created specifically for community-based natural resource management: [http://www.nacso.org.na/dwnlds/training\\_manuals/1.08%20Financial%20Management.pdf](http://www.nacso.org.na/dwnlds/training_manuals/1.08%20Financial%20Management.pdf)

## NOTES