FACTORS AFFECTING THE EFFICIENCY OF FINANCIAL RESOURCE USE IN NON-PROFIT ORGANIZATIONS

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The efficiency of financial resource use in non-profit organizations cannot be evaluated only by the amount of funds spent or by the absence of budget deviations. A financially efficient organization must convert attracted resources into mission-related activities while controlling the additional costs of fundraising, administration, reporting and monitoring. Therefore, the assessment of efficiency should distinguish between the nominal amount of financing and the amount that remains available for substantive activity after necessary transaction and support costs are taken into account. This distinction makes it possible to evaluate not only how much funding was attracted, but also how effectively it can actually be used for the organization's core purposes.

The factors influencing efficiency can be divided into internal and external groups. Internal factors include budgeting quality, staff competence, procurement discipline, accounting organization, the share of fixed costs and the ability to plan cash flows. External factors include competition for grants, donor restrictions, payment delays, inflationary changes, reporting requirements and the predictability of partner commitments. The final financial result is shaped by the interaction of these factors rather than by any single indicator. Their combined effect determines the real financial flexibility of the organization and the extent to which available resources can be directed toward mission-related activities.

For analytical purposes, the net usability of a financial resource can be expressed through a simple coefficient: NRU = (R - F - A - M) / R, where R is the nominal resource, F is fundraising and application cost, A is administrative and contractual support cost, and M is monitoring and reporting cost. This coefficient does not measure social impact or profitability. Its purpose is to show what share of the nominal resource remains financially usable for the organization after the main additional costs of mobilization and administration. In this way, it provides a clearer basis for comparing different funding sources from the perspective of their actual financial usefulness.

Table-1

Main factors affecting the efficiency of financial resource use

Factor	Typical manifestation	Effect on efficiency	Management response

Internal financial-management factors			
Funding acquisition cost	Preparation of applications, negotiations and donor search	Reduces net usable value before the project starts	Track fundraising time and cost across all applications
Administrative burden	Contracting, banking, accounting and compliance procedures	Increases indirect expenditure	Standardize processes and include justified overheads
Cash-flow instability	Delayed transfers or irregular receipts	Creates liquidity gaps and interrupts activities	Monthly cash-flow planning and operating reserve
External and contractual factors			
Resource restrictions	Funds can be used only for narrow budget items	Limits flexibility and adaptation	Assess restrictions before accepting funding
Monitoring and reporting load	Frequent reports, audits and evidence requirements	Consumes staff time during implementation	Digital records and proportional reporting procedures

Table 1 demonstrates that financial efficiency depends on the full life cycle of a resource: attraction, contracting, use, monitoring and reporting. A source that appears inexpensive at the moment of receipt may become more costly if it requires intensive reporting or creates a long period of pre-financing. For this reason, management decisions should compare not only nominal amounts but also the organizational resources needed to access and administer each source.

Competition intensity is especially important for grant-based financing. When many applications compete for a limited budget, the economic cost of unsuccessful applications becomes part of the organization's overall fundraising effort. If only successful grants are used to calculate acquisition cost, management may underestimate the real price of obtaining external resources. A more realistic approach distributes the cost of proposal development across both successful and unsuccessful applications during the reporting period.

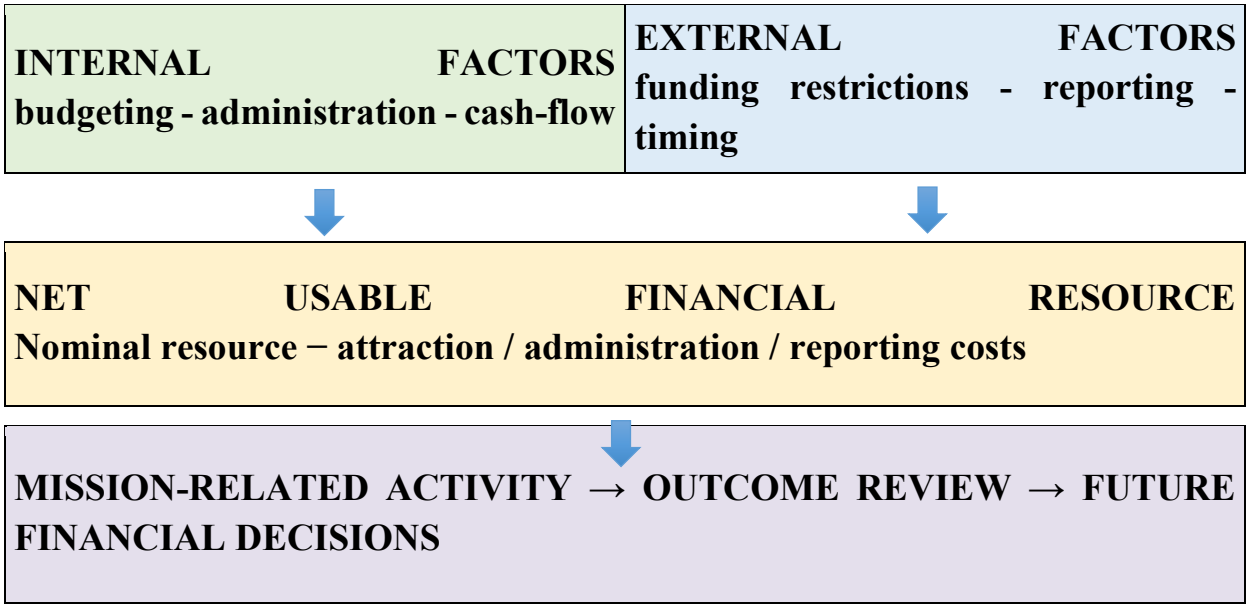


Figure-1. Financial resource efficiency chain in a non-profit organization

Figure 1 shows that efficiency is a chain rather than a single expenditure ratio. The first stage is resource attraction, but the financial value of the source changes after transaction and compliance costs are incurred. The third stage represents the resource that can actually support the mission. The final stage is management learning: information on costs, delays and restrictions should influence future source selection and budgeting decisions.

The proposed logic also helps distinguish efficiency from economy. A reduction in administrative expenditure is not automatically efficient if it weakens accounting quality, reporting or service continuity. Similarly, a high share of program expenditure may conceal liquidity risk if the organization has no reserve for delayed receipts. The objective should therefore be a justified balance between mission expenditure, necessary organizational capacity and financial safety.

Practical improvement requires a small set of internal indicators: fundraising cost per successful resource, share of unrestricted funds, administrative support cost, months of reserve coverage and the net usability coefficient. These indicators can be monitored without creating a complex integral index. Their value lies in separate interpretation, which allows managers to identify the specific source of inefficiency and select an appropriate response.

In conclusion, the efficiency of financial resource use in non-profit organizations is shaped by acquisition cost, administrative burden, cash-flow stability, restrictions on use and monitoring requirements. Financial management should therefore move from nominal resource accounting toward net-resource analysis. Recording the full cost of fundraising, planning liquidity, maintaining proportionate organizational capacity and

comparing sources by restrictions and transaction costs can improve the quality of financial decisions and increase the share of resources available for substantive activities.

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