

COACH: Finance

INDEED

Innovation for
Dementia in the Danube Region

Project co-funded by the European Union
A stream of cooperation

Finance: Summary

- The sustainable and long-term **financing** of services in the social and health sector is crucial and **should be planned** at an early stage in the development of a new project.
- While traditional companies strive for **financial return** organizations in the social and health sector often aspire a **social return**. This could be an improved wellbeing for the target group.
- There is a **variety of possible sources of financing**. Which sources are the best to choose depends on the legal form of an organization and on the project idea.
- Organizations can have **equity capital** and **debt capital**. Normally, investors expect repayments and an additional financial return. This is especially true for debt capital. Therefore, debt capital is mainly used by profit oriented companies while non-profit organizations focus on special forms of equity capital that do not require repayments.
- Usually, organizations need **seed capital** to finance one-time investments to build up a project or business and an **ongoing financing**.
- Especially for the ongoing financing it is necessary to **use various sources of financing** to cover all cost and to reduce the dependence on one donor.
- Organizations must be careful to remain **solvent**, e.g. always have enough capital to cover current and unexpected costs.

Finance: Types of organizations

Non-profit structure

For-profit structure

Primarily social objective

NPO funded by donations
0-25% market income

NPO with mixed income sources
25-49% market income

Social Business
< 50% market income

For-profit company with social responsibility

Typical for-profit company

Primarily economic objective



Donations, philanthropic capital

Classic forms of financing

Potential for social investment

Finance:

Sources of financing

Public funds are provided by the European Union as well as by public administrations at the regional and national level. Usually these funds are advertised and organizations must apply for such funds.

- 👍 Funds usually do not have to be repaid.
- 👍 Most funds are only available for non-profit organizations.
- 👎 The application process is time consuming.
- 👎 The use of the money and the benefits achieved must (often) be reported.

Donations can come from private people, foundations or companies who want to support a social cause. Some donations are given for a specific purpose and thus, can only be used for this purpose. A donation does not include any exchange of services. Anyways, donors should be managed closely and kept satisfied.

- 👍 Donations do not have to be repaid.
- 👎 Some donors must be kept informed about the impact their money creates to keep them satisfied and secure future donations.

Sponsoring is done by companies. They give money to non-profit organizations and expect some advertising opportunity in return. For example, the non-profit organization places the company's logo on their website and vice versa. That way, companies often expect to improve their image.

- 👍 Companies expect something in return which is easy to provide.
- 👎 Organization must be careful in only choosing sponsors that align with their mission.

Finance:

Sources of financing

Service contracts are often entered with the public administration or social insurances like the health or care insurance. In this case, the public administration or insurance company pays dues for each service provided or for each client taken care of.

- 👍 The public administration/insurance has an interest in the service provision. Often, it is obligated to provide such service or the provision of the service saves money in the long-term.
- 👎 Often service contracts go along with higher administration costs for the non-profit organization.

Membership fees are paid by members of an association. As an association, a non-profit organization can attract such members by providing a social network, events, newsletters and much more. Usually, this fee is paid annually or monthly.

- 👍 Membership fees are a regular income and enable planning.
- 👎 Members expect something in return. Offers for members might need additional resources.

Service charges are paid by customers. Depending on the financial resources of the clients, a non-profit organization can ask for a services charges to cover some costs.

- 👍 Service charges are a regular income.
- 👍 Service charges can be adapted to the financial situation of the client.
- 👎 Some customers cannot afford any service charge and prefer to do without the service if it is not for fee.

Cross-financing means that income from one service is used to finance another service with less income.

- 👍 Organizations rely on internal resources and are less dependent on external donors.
- 👎 Cross-financing is only available to organizations with several service areas.

Finance: Financial Plan

Project: ...	Year 1					Year 2					
	Services			Organisation	Sum	Services			Organisation	Sum	
	Service A	Service B	Service C			Service A	Service B	Service C			
COSTS											
(Initial) Investments											
Material Costs											
Personnel Costs											
Infrastructure Costs											
Taxes & Fees											
Financial Costs											
Total Costs	€ 0	€ 0	€ 0	€ 0	€ 0						
EXPENSES on an accrual basis											
Accruals											
Depreciations											
Non-operating EXPENSES and implicit costs											
- Non-operating Expenses											
+ Implicit Costs											
Total Expenses (= Costs + Accruals + Depreciation + Non-operating Expenses + Implicit Costs)	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
REVENUES											
Funds						€ 0					€ 0
Donations						€ 0					€ 0
Service charges						€ 0					€ 0
Service contract						€ 0					€ 0
Membership fees						€ 0					€ 0
Sponsoring						€ 0					€ 0
Sum = total revenues	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Cash flow	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0
Cash position				€ 0	€ 0	€ 0				€ 0	€ 0
Liquidity						€ 0					€ 0

In a financial plan all revenues, costs and expenses of a project are presented. By comparing the income with the costs the organization's liquidity is determined.