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COACH: Finance

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Innovation for Dementia in the Danube Region

Project co-funded by the European Union

A stream of cooperation

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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.

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Finance:
Types of organizations

For-profit structure

Non-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
	MEDECINS SANS FRONTIERES DOCTORS WITHOUT BORDERS	INTERNATIONAL RED CROSS	DIALOGUE IN THE DARK LEARN TO SEE	patagonia VENTURA · CALIFORNIA	H&M	

Donations, philanthropic capital

Classic forms of financing

Potential for social investment

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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.

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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.

Finance:
Sources of financing

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.

Crowdfunding is a funding option in the form of donations. It means that small amounts of donations are raised from a large number of people. It takes places on internet platforms where the projects presents its idea and where donations are made directly through the platform. It is especially suitable for start-up projects or projects with a high degree of innovation, that catch the interest of the "crowd".
- 👍 Possibility to receive attention by a large number of people.
- 👍 With comparatively little effort financial but also non-financial support can be achieved.
- 👍 It is gaining popularity and a bride portfolio of investors can be addressed.
- 👍 It supports in raising an initial investment to set up a project.
- 👎 Organizations run the risk of not finding enough support.
- 👎 One-time possibility to obtain financing.

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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						
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**
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**
Cash flow	€ 0	€ 0	€ 0	€ 0	**€ 0**	€ 0	€ 0	€ 0	€ 0	**€ 0**
Cash position				€ 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.

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Finance:
Approaching financiers

When approaching possible financiers or investors, you should …

1. Do extensive research on what kind of sources of financing you need and who to approach for it
2. Arrange a personal meeting with a potential financier or investor
3. Get well informed about your counterpart and his/ her interests
4. Be able to clearly summarize your projects and its benefits (for your counterpart)
5. Prepare a business plan/ pitch deck and a financial plan

For meetings with financiers or investors, you should also make sure that you have answers to the following questions …

- ✓ What kind and how much financing will you require?
- ✓ What amount of financing can you contribute on your own (e.g. in form of savings, securities, collaterals,…)? What kind of subsidies are available to you?
- ✓ What impact or (social) return on investment does your project have? What is the added value for your potential investor?
- ✓ What are potential risks of your project and how will you address them?