SKIVRE

SKIVRE Training Module 9:

Financing Strategies

How to finance my production and sales processes

Authors:
Angela Ivanova
Wolfgang Kniejski

Institution:
INI-Novation Bulgaria OOD

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This training module is a part of SKIVRE training scheme containing 10 learning modules in total, which has been developed within the Erasmus+ Strategic Partnership **SKIVRE - Skills Development for the Valorisation of European Religious Heritage.**

In SKIVRE a team of 6 European institutions – all linked to religious heritage preservation - developed a training scheme for manufacturing and marketing of high-quality handcrafted products of European monasteries. The training contents at a glance:

SKIVRE Training Scheme
Module 1: Introduction Module
Module 2: Marketing Strategies
Module 3: Monastic Products
Module 4: How to Sell Monastic Products Authentically
Module 5: Distribution Channels
Module 6: Social Media and Communication
Module 7: Value Adding Through Networks
Module 8: Creating a Strong Brand
Module 9: Financing Strategies
Module 10: Aspects of Sustainability

You can find more information at the homepage: www.skivre.eu

Front page picture: Kremikovstsi Monastery, Bulgaria. Author: Angela Ivanova

Content

About the module

Training description

In this module you will learn about the professional approach to financing and how your products will enable your monastery to be one of those that receive the funds they apply for.

One of the most important questions in monasteries and craftsmanship regarding the development, production and sales of high-quality products is its financing. The product concept has to be defined, resources have to be structured, and the first steps towards production and sales operations have to be taken. Funding these activities is one of the most important considerations to be taken, but not many decision makers at European monasteries are trained in the art of raising funds. Often financial planning is done in the hope that at some time during the year, the money that is needed will come from somewhere. Financial stress is a great discouragement and many good ideas collapse because of a lack of financial resources.

There exist several different financing sources and financing models for different steps in the product development and sales initiation phases; but there is also the reality that there are thousands of organizations applying for money from the same sources. This **SKIVRE** module will introduce the different forms and unique features of the financing possibilities available.

Objectives of this training module

In this module, methods for the successful financing of product development and sales will be presented. Each individual financing option will be discussed and consequently the various alternative actions you may take will be addressed. You will not only learn about the different forms of financing, but also obtain insight into the philosophies of potential capital providers (Business Angels, banks, etc.).

Besides providing theoretical knowledge regarding financing models, specific real-life scenario examples will also be used to illustrate different alternative financing options or steps to be taken towards them. Current challenges faced by the representatives of monasteries will also be taken into consideration for the analysis of different financing possibilities.

Target groups

This training module is designed to fit the training needs of the monks and nuns, management, staff and volunteers at European monasteries, no matter if they are run by Catholic or Protestant Orders or the Orthodox Church; by public or private operators.

All modules are relevant for all target groups, but some have a more specific character. They are all interrelated. They are different in terms of information, skills and competences level and target three groups:

- **Target group 1:** For people working on the implementation level like those in monastery shops three Modules are recommended: Module 1 as introduction to the training, Modules 3 and 4 about monastic products and authentic selling of monastic products. People starting to consider certain strategic aspects might get inspiration from Module 7 on value adding through networking.
- **Target group 2**: For people with a special knowledge or experiences or a certain background and/or specified tasks in the monastic management, Modules 2 on marketing strategies, Module 5 on distribution strategies, Module 8 on creating a strong brand, and Module 6 on social media and communication offer learning content and reflection.
- **Target group 3:** People on a strategy decision level with a highly specialized / experienced background and respective responsibilities in a monastery (Modules 9 on financing strategies and Module 10 on sustainability aspects).

Gained knowledge and skills after finishing this module

After studying this module, you will:

- Understand the nature and characteristics of financing options;
- Be aware of appropriate financing sources in preparation for your product development and sales activities;
- Understand the various types and unique characteristics of financing in the different phases of your new business ventures;
- Know the nature, characteristics and „killer criteria“ of different kinds of funding options; and
- Learn about public programmes and donation sources that might be able to support your initiatives.

Training method

SKIVRE focuses on an interactive training approach, whether you use it as a self-learning course or instructed by a trainer. This training module includes:

- Individualized self-learning - a powerful learning method that enables each learner, on the basis of his/her own experience and knowledge, and on the basis of newly acquired knowledge, to reach development decisions on his/her own.
- Self-assessment - ongoing self-assessment tests or homework that learners send to their trainer prior to the commencement of each subsequent module;
- You might also work in small groups of 2 or 3, e.g. if you decide to implement this module with colleagues as a self-learning group in your monastery or supported by an external trainer.

You gain knowledge individually or in a group using:

- Training materials like this module;
- Training materials in nine more **SKIVRE** training modules which are closely linked to this module;
- The interactive **SKIVRE** online training platform: www.skivre.eu/training;
- Facilitated training sessions for learning in a group with a professional trainer.

Training content

Unit 1. Financing strategies and its strategic relevance

Successful financing of product development and sales will hereinafter be referred to as Business Financing. Please do not be deterred by this term! It is nothing more than a 'terminus technicus' describing content. It goes to the heart of modern-day profitability management and enables all organizations and their stakeholders to pursue their operating goals. Without such financial products as equity financing and debt financing, the global marketplace would experience reduced productivity, and monasteries would find it harder to fund their commercial product activities.

Anyhow, in order to grow your business, it is important to invest in it. This means that you need access to funding sources. Consequently, you have to understand the basics of internal financing, debt financing and equity financing, which will be briefly summarised in the following sub-chapters.

In the global marketplace, the business-finance debate often revolves around the best option one can use to fund activities. Some observers contend that so called equity financing shields firms from unfavourable situations that often come with high indebtedness and interest rates. Others opine that issuing debt products protects organizations from the relentless demands of external investors and shareholders, especially those who place short-term profitability and dividend distributions ahead of long-term business administration. A smart way to settle the dispute might be to issue mixed, or hybrid, products -- such as the so-called mezzanine financing instruments. Unfortunately, external sources of financing — sponsors, donators, lenders or investors — are often sceptical, especially in the case of smaller businesses like those which you will most probably steer in your monastery. This can leave you to rely on internal sources of finance for investing in your business. Accordingly, please see the overview on **business financing instruments** below:

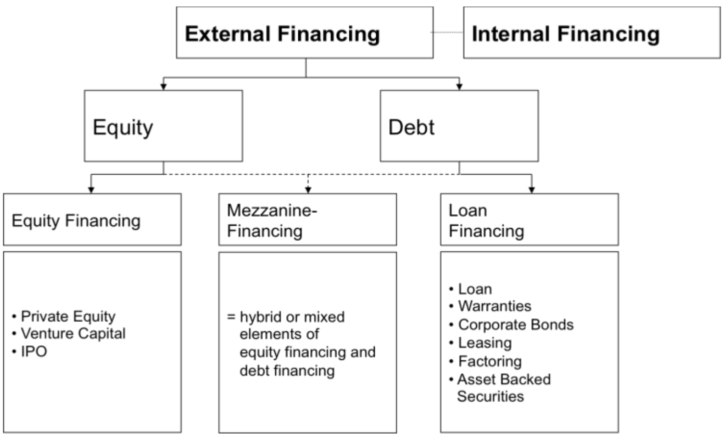

Figure 1. Overview of Business Financing instruments

Business financing has direct implications for financial accounting and reporting. Financial managers report corporate debts in the statement of financial positions, also known as a balance sheet or statement of financial condition. Equity is part of two statements: balance sheet and statement of shareholders' equity.

There is a 17:46 minutes self-learning video summarising important aspects of Business Financing under: https://youtu.be/dmyrCLJGTtE . Give it a try!

1.1. Internal financing

When you use the mechanism of internal financing you fund the development of new products with liquidity, the so-called cash flow, which is already available within your organisation's assets: this may be personal savings or money available in your bank accounts or even money that may be available in a very short term through a so-called liquidation of assets.

However, selling assets decreases the value of the institution and can trigger transaction costs, as well as taxes. Internal funding keeps all assets in the institution and incurs no additional expenses beyond the cost of the project itself.

Applying those mechanisms of internal financing prevents you from paying interest to the bank or sharing ownerships, profits and dividends with an equity investor. Using internal funding offers the advantage of keeping control in the hands of the company's founders. You also do not have to go through an application process for public grants.

Especially, in the cultural and religious sector, your business may qualify for governmental grants under certain circumstances. However, the application process can be lengthy and expensive. The preparation of the grant documentation can be very time consuming and even cost consuming. Where you have to hire and pay external expertise, you have to win the approval of the agency giving the grant, and this can involve many individuals and committees.

With internal funding available, you can start on your product development project immediately, with no approval required other than that of your management. Here are some options for internal funding

- **Retained earnings** are an easy source of internal financing to use because they are liquid assets. Retained earnings are the portion of net income that you have retained in your business and not paid out. In a small business, retained earnings are usually paid out to the owners, who often do not draw a budgeted salary. Instead of paying out retained earnings, you can reinvest them in production and marketing of your monastic products.

- **Fixed assets** are those that are not easily converted to cash. Typically, these assets include equipment, property and factories. Because these assets take time to convert to cash, they cannot be relied on for short-term access to finance. If you have the time, however, you could, e.g., sell off some equipment or even property to invest in your business.
- **Current assets** consist of cash or anything that can easily be converted into cash. For example, if your monastery has stock holdings in other companies or property, you can sell them and use the income as a source of financing. You should be careful, however, not to decrease your current assets to levels less than your current liabilities, as this may prevent you from paying off your debts.
- **Savings** are the backbone of many craftsmanship's businesses. If your business doesn't have the assets to finance your activities, you may still have finances that you can contribute to the business. This provides an alternative to seeking external donators or loans and allows you to retain control over your business.

Here you will find an example of internal financing explaining how monks are selling coffee to raise the funds for the monastery, which can be used internally to fund other product developments: https://youtu.be/QyFxDUDFB_4. Get inspired!

1.2. The Capital Structure

Capital structure is a business finance term that describes the proportion of an organisation's capital, or operating money, that is obtained through debt and equity. Since capital is expensive for small businesses, it is particularly important for monasteries and craftsmanships to determine a target capital structure for their organisations. Capital structure decisions are complex ones that involve weighing a variety of factors. Debt includes loans and other types of credit that must be repaid in the future, usually with interest (see more detailed explanations in Unit 2. Debt Financing). Equity involves selling a partial interest in the company to investors, usually in the form of stock. In contrast to debt financing, equity financing does not involve a direct obligation to repay the funds. Instead, equity investors become part-owners and partners in the business, and thus are able to exercise some degree of control over how it is run (see more detailed explanations in Unit 3. Equity Financing).

In general, organisations that tend to have stable sales levels, assets that make good collateral for loans, and a high growth rate can use debt more heavily than other organisations. On the other hand, organisations that have conservative management, high profitability, or poor credit ratings may wish to rely on equity capital instead. Please see Figure 2 below summarising the sources of funding compared to the business risks:

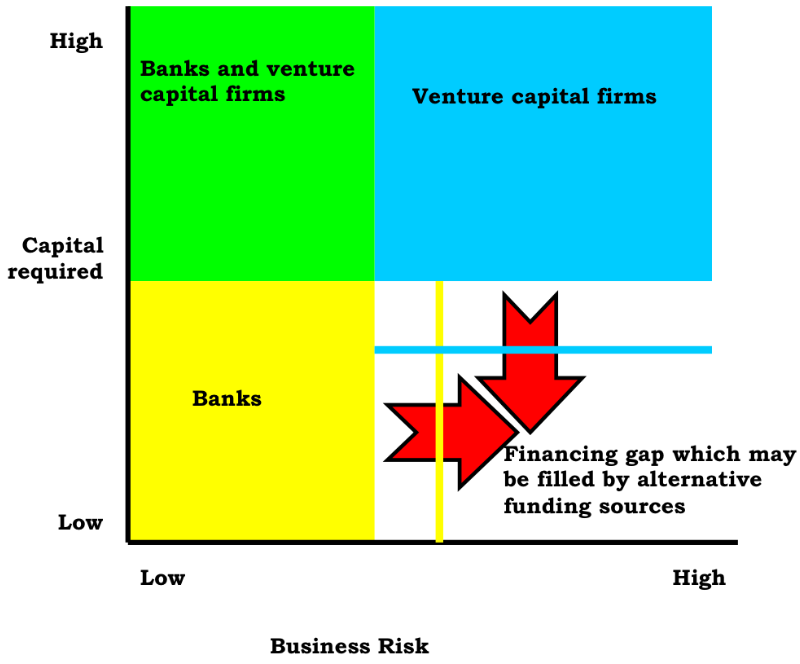

Figure 2. Sources Business Financing in relation to business risks

With debt financing an organisation may fund its product development and sales operations by borrowing on financial exchanges or reaching out to private or public lenders. This includes various debt instruments, from traditional bonds and commercial papers to such obscure products as dual-currency debentures and convertible bonds. Organisations reaching out to such private lenders as banks and insurance companies can receive funds through loans, overdraft agreements and lines of credit.

Equity financing enables an organisation to fund its product activities while maintaining a clean credit profile. The organisation raises money by selling co-ownership. In modern economies, equity funding often gives way to a long-term shareholder-oriented strategy. Buyers of equity, the so-called shareholders, may receive dividend payments in cash or stock. They may also enjoy other monetary benefits when stock prices rise on financial markets.

For a video explaination of the differences between Debt Financing and Equity Financing please follow: https://www.youtube.com/watch?v=cg9RgzYzrK8&t=177s

1.3. Advantages and disadvantages of financing options

Both debt and equity financing offer small businesses, craftsmanships and monasteries a number of advantages and disadvantages. The key for the organisation is to evaluate their particular situation and determine its optimal capital structure.

The primary advantage of debt financing is that it allows the owners and the management to retain ownership and control of the organisation. In contrast to equity financing, the responsible actors are able to make key strategic decisions and also to keep and reinvest more of the organisation's profits. Another advantage of debt financing is that it provides owners and management with a greater degree of financial freedom than equity financing. Debt obligations are limited to the loan repayment period, after which the lender has no further claim on the business, whereas equity investors' claims do not end until their stock is sold (so-called "exit strategy of equity investors"). Debt financing is also easy to administer, as it generally lacks the complex reporting requirements that accompany some forms of equity financing. Finally, debt financing tends to be less expensive for organisations over the long term, though more expensive over the short term, than equity financing.

The main disadvantage of debt financing is that it requires an organisation to make regular monthly payments of principal and interest. Often the organisation experiences shortages in cash flow that may make such regular payments difficult, and most lenders provide severe penalties for late or missed payments. Another disadvantage associated with debt financing is that its availability is often limited to established institutions, which might not always be the case when a monastery is run by a private owner. Since lenders primarily seek security for their funds, it can be difficult for unproven businesses to obtain loans.

The main advantage of equity financing for organisations, which are likely to struggle with cash flow initially, is that there is no obligation to repay the money. Equity financing is also more likely to be available to concept and early stage businesses (i.e. new product developments) than debt financing. Equity investors primarily seek growth opportunities, so they are often willing to take a chance on a good idea. But debt financiers primarily seek security, so they usually require the organisations to have some sort of track record before they will consider making a loan. Another advantage of equity financing is that investors often prove to be good sources of advice and contacts for small business owners and management.

The main disadvantage of equity financing is that the owners must give up some control of the business. If investors have different ideas about the organisation's strategic direction or day-to-day operations, they can pose problems for the original decision maker. In addition, some sales of equity can be very complex and expensive to administer. Such equity financing may require complicated legal filings and a great deal of paperwork to comply with various regulations. For many small institutions, therefore, equity financing may necessitate enlisting the help of attorneys and accountants.

For watching a case study video on decisions about Debt Financing vs. Equity Financing please follow: https://www.youtube.com/watch?v=G6-NZ2iFq9c&t=176s

For the investors view on analysing the differences between Debt Financing vs. Equity Financing please follow: https://www.youtube.com/watch?v=MrupJdMrpaE&t=65s

For watching an example on profitability calculation of Debt Financing vs. Equity Financing please follow: https://www.youtube.com/watch?v=sFE_1hPoR3U&t=15s

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Tags for Unit 1:

Capital Structure, Internal Financing, External Financing, Debt Financing, Equity Financing, Business Financing, Financing Risks

Unit 2. Detailed Consideration of Debt Financing

Debt financing is a strategy that involves borrowing money from a lender or investor with the understanding that the full amount will be repaid in the future, usually with interest. In contrast, equity financing, in which investors receive partial ownership in the company in exchange for their funds, does not have to be repaid. In most cases, debt financing does not include any provision for ownership of the organisation (although some types of debt are convertible to stock). Instead, small organisations that employ debt financing accept a direct obligation to repay the funds within a certain period of time.

The interest rate charged on the borrowed funds reflects the level of risk that the lender undertakes by providing the money. For example, a lender might charge a startup company a higher interest rate than it would an organisation of public interest that had shown financial sustainability for several years. Since lenders are paid off before owners in the event of business liquidation, debt financing entails less risk than equity financing and thus usually commands a lower return.

Though there are several possible methods of debt financing available to various organisations and activities such as product development, by far the most common type of debt financing is a regular loan. Loans can be classified as long-term (with a maturity longer than one year), short-term (with a maturity shorter than two years), or a credit line (for more immediate borrowing needs). They can be endorsed by co-signers, guaranteed by the government, or secured by collaterals, such as real estate, accounts receivable, inventory, savings, life insurance, stocks and bonds, or by the item purchased with the loan.

When evaluating an organisation for a loan, lenders ideally like to see a more than a one year operating history, a stable management group, a desirable niche in the target market sector, a growth in market share, a strong cash flow, and an ability to obtain short-term financing from other sources as a supplement to the loan. Most lenders will require an organisation’s owner to prepare a loan proposal or complete a loan application. The lender will then evaluate the request by considering a variety of factors. For example, the lender will examine the institution's credit rating and look for evidence of its ability to repay the loan, in the form of past earnings or product-related income projections. The lender will also inquire into the amount of equity in the business, as well as whether management has sufficient experience and competence to run, for instance, the product business effectively. Finally, the lender will try to ascertain whether an organisation like your monastery can provide a reasonable amount of collateral to secure the loan.

2.1. Advantages and Disadvantages of Debt Financing

Experts indicate that debt financing can be a useful strategy, particularly for organisations with good credit and a stable history of revenues, earnings, and cash flow. But business owners and managers should think carefully before committing to debt financing in order to avoid cash flow problems and reduced flexibility. In general, a combination of debt financing and equity financing is considered most desirable for small business organisations. Decision makers on debt financing should consider several factors when choosing between debt and equity financing. First, one must consider how much ownership and control one is willing to give up, not only at present but also in future funding rounds. Second, one should decide how leveraged the organisation can comfortably be, or its optimal ratio of debt to equity. Third, the decision maker should determine what types of financing are available to the organisation, given its stage of development and capital needs, and compare the requirements of the different types. Finally, as a practical consideration, the decision maker should ascertain whether or not the organisation is in a position to make set monthly payments on a loan.

No matter what type of financing is chosen, careful planning is necessary to secure it. The organisation’s owner or manager should assess the organisation's financial needs, and then estimate what percentage of the total funds must be obtained from outside sources. A formal business plan, complete with cash flow projections, is an important tool in both planning for and obtaining financing. It is recommended to choose debt financing when federal interest rates are low, organisations have a good credit history or property to use as collateral, and they expect future growth in earnings as well as in the overall sector, which is in your case the monastic product sector.

Like other types of financing available to small businesses, debt financing has both advantages and disadvantages. The primary advantage of debt financing is that it allows owners and management to retain ownership and control of the organisation. In contrast to equity financing, the decision makers are able to make key strategic decisions and also to keep and reinvest more of the organisation’s profits. Another advantage of debt financing is that it provides small business owners with a greater degree of financial freedom than equity financing. Debt obligations are limited to the loan repayment period, after which the lender has no further claim on the business, whereas equity investors' claim does not end until their stock (=co-ownership) is sold. Furthermore, a debt that is paid on time can enhance an organisation's credit rating and make it easier to obtain various types of financing in the future. Debt financing is also easy to administer, as it generally lacks the complex reporting requirements that accompany some forms of equity financing. Finally, debt financing tends to be less expensive for small businesses over the long term, though more expensive over the short term, than equity financing.

The main disadvantage of debt financing is that it requires a small business to make regular monthly payments of principal and interest. Very young organisations often experience shortages in cash flow that may make such regular payments difficult. Most lenders provide severe penalties for late or missed payments, which may include charging late fees, taking possession of collateral, or calling the loan due early. Failure to make payments on a loan, even temporarily, can adversely affect an organisation's credit rating and its ability to obtain future financing. Another disadvantage associated with debt financing is that its availability is often limited to established businesses. Since lenders primarily seek security for their funds, it can be difficult for unproven businesses (i.e. development of new product lines) to obtain loans. Finally, the amount of money small organisations may be able to obtain via debt financing is likely to be limited, so they may need to use other sources of financing as well.

Small businesses, monasteries, craftsmanships can obtain debt financing from a number of different sources. These sources can be broken down into two general categories, private and public sources. Private sources of debt financing (see Subunit 2.2) include friends and relatives, banks, credit unions, consumer finance companies, commercial finance companies, trade credit, insurance companies, factor companies, and leasing companies. Public sources of debt financing (see Subunit 2.3) include a number of loan programmes provided by state and federal governments to support small businesses.

2.2. Private Sources of Debt Financing

Many entrepreneurs – and a monastery can also be a kind of "entrepreneur" - begin their operations by borrowing money from **friends and other related persons**. In case of monasteries this can be e.g. an association of "Friends of the Monastery". The main advantage of this type of arrangement is that friends are likely to provide more flexible terms of repayment than banks or other lenders. In addition, these investors may be more willing to invest in an unproven business idea, based upon their personal knowledge and relationship with your monastery, than other lenders. A related disadvantage, however, is that friends who loan money may try to become involved in its management. Experts would recommend your monaster creates a formal agreement with such investors to help avoid future misunderstandings.

Banks are the sources that most people immediately think of for debt financing. There are many different types of banks, although in general they exist to accept deposits and make loans. Most banks tend to be fairly risks averse and proceed cautiously when making loans. As a result, it may be difficult for a young product development and sales initiation business to obtain this sort of financing. Commercial banks usually have more experience in making business loans than do regular savings banks. It may be helpful to review the differences among banks before choosing one as the target of a loan request. As a monastery you have access to banks specialised in the religious sector, so they may be valuable “free consultants” to your product funding initiative, because they are well connected.

In the religious sector there are specialised banks focusing on the needs of the churches (please compare for Germany https://de.wikipedia.org/wiki/Kirchliches_Kreditinstitut). It came into existence several centuries ago. Whether the activities of the Knights Templar (12th century), Mounts of Piety (appeared in 1462) or the Apostolic Chamber attached directly to the Vatican, a number of operations of a banking nature (money loan, guarantee, etc..) or a financial nature (issuance of securities, investments) were provided. Nowadays, many Catholic financial players exist. Examples are Pax-Bank, Liga Bank, Darlehenskasse DK, the US Catholic Family Federal Credit Union, the British Christian Community Credit Union or the Credit cooperative ad the Caisses de crédit municipal in France. Their financial products and support activities are characterized by their search for solidarity and the distribution of benefits in favor of the poor.

Credit unions are another common source of business loans. Since these financial institutions are intended to aid the members of an organisation (e.g. employees of a company) they often provide funds more readily and under more favourable terms than banks. However, the amount of money that may be borrowed through a credit union is usually not large.

Finance companies are another option for so-called small business loans. Although they generally charge higher interest rates than banks and credit unions, they also are able to approve more requests for loans. Most loans obtained through finance companies are secured by a specific asset as collateral, and that asset can be seized if the entrepreneur defaults on the loan. Consumer finance companies make small loans against personal assets and provide an option for individuals with poor credit ratings. Commercial finance companies provide small businesses with loans for inventory and equipment purchases and are a good resource for product manufacturing organisations. Insurance companies often make commercial loans as a way of reinvesting their income. They usually provide payment terms and interest rates comparable to a commercial bank, but require a business to have more assets available as collateral.

Trade credit is another common form of debt financing. Whenever a supplier allows a small business to delay payment on the products or services it purchases, the small business has obtained trade credit from that supplier. Trade credit is readily available to most small businesses, if not immediately then certainly after a few orders. But the payment terms may differ between suppliers, so it may be helpful to compare or negotiate for the best terms. A small business's customers may also be interested in offering a form of trade credit (for example, by paying in advance for delivery of products they will need on a future date) in order to establish a good relationship with a new supplier.

Factor companies help organisations to free up cash on a timely basis by purchasing their receivable accounts. Rather than waiting for customers to pay invoices for product sales, the organisation/monastery can receive payment for sales immediately. Factor companies can either provide recourse financing, in which the small business is ultimately responsible if its customers do not pay, and non-recourse financing, in which the factor company bears that risk. Although factor companies can be a useful source of funds for existing businesses, they are not an option for organisations that do not have receivable accounts.

Leasing companies can also help small businesses to free up cash by renting various types of equipment instead of making large capital expenditures to purchase it. Equipment leases usually involve only a small monthly payment, plus they may enable a small business to upgrade its equipment quickly and easily.

2.3. Public Sources of Debt Financing

State and federal governments sponsor a wide variety of programmes that provide funding to promote the formation and growth of business activities. Very often, in order to qualify for a publicly guaranteed loan, a lendor must first be turned down for a loan through regular channels. Guaranteed loan funds can be used for business expansion or for purchases of inventory, equipment, and real estate.

Small Business Investment Companies (SBICs) are government-backed firms that make direct loans or equity investments in small businesses. SBICs tend to be less risk-averse than banks, so funds are more likely to be available for startup activities such as new product developments. In different European regions, especially in rural areas, programmes exist making loans to small businesses that provide jobs in economically disadvantaged regions.

Overall, debt financing can be a valuable option for monasteries and craftsmanships that require cash to begin or expand their product development and sales operations. But experts warn that carrying too much debt can cause an organisation to encounter severe cash flow problems. Instead, it is best to use a combination of different forms of financing in order to spread the risk and facilitate future funding efforts. Planning is essential for organisations seeking loans and other types of debt financing. It may take time and persistence to convince a lender of the value of business ideas and plans. With so many possible sources of debt financing, it is important for owners and managers to find a lender with whom they can develop a comfortable working relationship. Forming a good relationship may help negotiate favourable interest rates and fees, which can make a big difference to the final cost of the debt financing.

Further Readings:

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Tags for Unit 2:

Debt Financing, Loans, Banks, Public Support

Unit 3. Detailed consideration of Equity Financing

Equity financing is a strategy for obtaining capital that involves selling a partial interest in the organisation to investors. The equity, or ownership position, that investors receive in exchange for their funds usually takes the form of stock in the company. In contrast to debt financing, which includes loans and other forms of credit, equity financing does not involve a direct obligation to repay the funds. Instead, equity investors become part-owners and partners in the business, and thus are able to exercise some degree of control over how it is run.

Since creditors are usually paid before owners in the event of business failure, equity investors accept more risk than debt financiers. As a result, they also expect to earn a higher return on their investment. But because the only way for equity investors to recover their investment is to sell the stock at a higher value later, they are generally committed to furthering the long-term success and profitability of the company. In fact, many equity investors in startup ventures and very young companies also provide managerial assistance to the organisation's owners and managers.

The development of new products and finally their commercial exploitation is not just a matter of 'having a good idea'. A functional product income flow can only exist when product ideas are further developed into exploitable product and sales lines. As the further development of product ideas very often don't meet with monastery management motives, idea carriers are often forced to act as a start-up venture to market their ideas. Such a product start-up not only requires an entrepreneurial spirit, but financiers that provide the start capital that is needed.

Equity financing has an important role in financing this kind of venture business. Venture Capital (VC) companies and Business Angels specialize in the founding and financing of new venture activities. The ideal financial development of such a venture process is displayed in the given Figure 3 below: The capital need differs from the early stages, the expansion stage and the later stages. In the so-called 'seed' stage, the focus is on gathering of ideas, developing a business plan and preparing product design, production commercialisation.

The idea originators themselves mostly finance this stage:

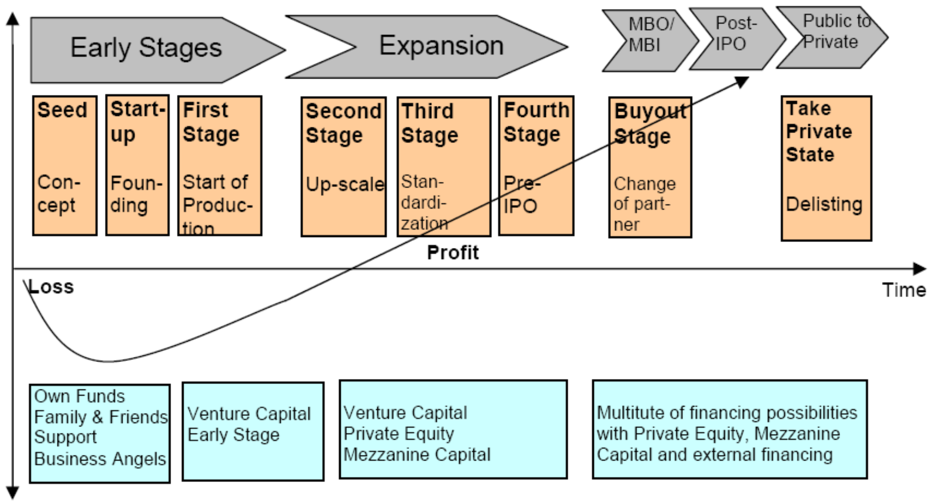

Figure 3. Every Equity Financing follows an ideal development process[1]

3.1. Advantages and Disadvantages of Equity Financing

The main advantage of equity financing for small organisations and craftsmanships, which are likely to struggle with cash flow initially, is that there is no obligation to repay the money. In contrast, bank loans and other forms of debt financing provide severe penalties for businesses that fail to make monthly principal and interest payments. Equity financing is also more likely to be available to concept and early stage businesses than debt financing. Equity investors primarily seek growth opportunities, so they are often willing to take a chance on a good product concept or any other business idea. But debt financiers primarily seek security, so they usually require the business to have some sort of track record before they will consider making a loan. Another advantage of equity financing is that investors often prove to be good sources of advice and contacts for owners and managers.

[1] Diagram according to Hack and Jandl 2004, p. 197; translated by the author.

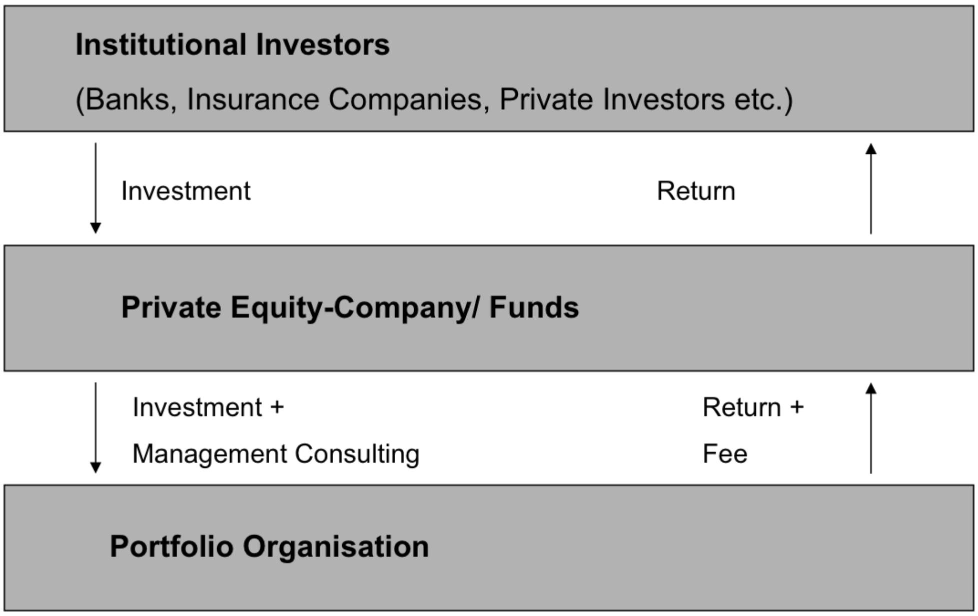

Figure 4. Private Equity Funding Prnciples

The main disadvantage of equity financing is that the one must give up some control of the business. If investors have different ideas about the organisation's strategic direction or day-to-day operations, they can pose problems for the owners or managers. In addition, some sales of equity can be very complex and expensive to administer. Such equity financing may require complicated legal filings and a great deal of paperwork to comply with various regulations. For many small businesses, therefore, equity financing may necessitate enlisting the help of attorneys and accountants.

Organisations should consider several factors when choosing a method of financing. First, one must consider how much ownership and control the organisation is willing to give up, not only at present but also in future financing rounds. Second, one should decide how leveraged the organisation can comfortably be, or its optimal ratio of debt to equity. Third, the decision maker should determine what types of financing are available to the organisation, given its stage of development and capital needs, and compare the requirements of the different types. Finally, as a practical consideration, the decision maker, manager or owner should ascertain whether or not the organisation is in a position to make set monthly payments on a loan.

The managers of your monastery must keep in mind that the more equity they give up to investors, the more they are working for someone else rather than themselves. Some people tend to think of equity financing as a free loan, but in fact it can be quite an expensive way to raise capital. For a small organisation to make equity financing cost-effective, it must be able to command a fair price for its value. This entails convincing potential investors that the business has a high current valuation and a strong potential for future earnings' growth. Decision makers should also compare the cost of equity financing to that of other financing options, as well as consider the ramifications of equity financing on the organisation's current and future capital structure.

3.2. Advantages and Disadvantages of Equity Financing

Equity financing for small businesses is available from a wide variety of sources. Some possible sources of equity financing include stakeholders like an association of “Friends of the Monastery”, private investors (from groups of local business owners to wealthy entrepreneurs known as "angels"), employees, customers and suppliers, former employers, venture capital firms, crowdfunding and crowdinvesting organisations, investment banking firms, insurance companies, and large corporations.

Venture Capital firms often invest in new and young organisations or ventures. Since their investments have higher risk, however, they expect a large return, which they usually realize by selling stock back to the organisation or on a public stock exchange at some point in the future. In general, venture capital firms are most interested in rapidly growing new technology companies, so they might not be very much interested in the traditional production of a monastery. They usually set stringent policies and standards about what types of products they will consider for investments, based on industries, technical areas, development stages, and capital requirements. As a result, formal venture capital is not available to a large percentage of small businesses, craftsmanship and monasteries.

Closed-end investment companies are similar to venture capital firms but have smaller, fixed (or closed) amounts of money to invest. These companies themselves sell shares to investors, then use this money to invest in other companies. Closed-end investment companies usually concentrate on high-growth companies with good track records rather than startup companies. Similarly, investment clubs consist of groups of private investors that pool their resources to invest in new and existing businesses within their communities. These entities are less formal in their investment criteria than venture capital firms, but they also are more limited in the amount of capital they can provide.

There are also many "hybrid" forms of financing available that combine features of debt and equity financing, so-called **Mezzanine Funds**.

Large corporations often establish investment arms very similar to venture capital firms. However, such corporations are usually more interested in gaining access to new markets, products and technologies through their investments than in strictly realizing financial gains. Partnering with a large corporation (e.g. as product reseller or distributor) through an equity financing arrangement can be an attractive option for a monastery. The association with a larger company can increase an organisation's credibility in the marketplace, help it to obtain additional capital, and also provide it with a source of expertise that might not otherwise be available. Equity investments made by large corporations may take the form of a complete sale, a partial purchase, a joint venture, or a licensing and distribution agreement.

The most common method of using **employees as a source of equity financing** is an Employee Stock Ownership Plan (ESOP). Basically, a type of retirement plan, an ESOP involves selling stock in the company to employees in order to share control with them rather than with outside investors. ESOPs offer small businesses a number of tax advantages, as well as the ability to borrow money through the ESOP rather than from a bank. They can also serve to improve employee performance and motivation, since employees have a greater stake in the organisation's success. However, ESOPs can be very expensive to establish and maintain. They are also not an option for organisations in the very early stages of development. In order to establish an ESOP, a business venture must have employees and must be in business for at least three years.

Private investors are another possible source of equity financing. A number of computer databases and venture capital networks have been developed in recent years to help link entrepreneurial organisations to potential private investors. A number of government sources also exist to fund small businesses through equity financing and other arrangements.

Another interesting mechanism, which especially may apply well for new product developments, is **equity crowd-funding**. It is an innovative financing approach that can provide organisations and business ventures a simple, low-cost way to raise capital from public and private investors. These internet-based models provide an alternative source of financing especially for those that do not have access to financing through traditional means. Equity crowdfunding provides a means for investors from the "crowd" (or investing public) to invest in a project or organisation in exchange for shares. Business owners can offer "perks" or rewards (such as free product samples or discounts) in exchange for the investment. However, business ownwers and managers have to stipulate the amount they wish to raise from investors. Once this funding is utilised, any surplus (minus fees) becomes available to the organisation for its crowdfunding purpose. Crowdfunding is usually facilitated via an online equity crowdfunding intermediary and is most commonly used by entities at the early stages of their development. Legislative changes are opening up opportunities for projects to raise funds from many investors, each contributing small amounts of financing, while diminishing transaction costs, as these investments are made online and through bank transfers. Another advantage of these finance techniques is that they enable the borrower to gather funds in a shorter time span than other financing means.

Peer-to-peer lending (also known as crowd-lending) is a form of debt crowdfunding. It matches people who want loans with people who are potentially willing to fund those loans. The matching is completed via an intermediary, a peer-to-peer lending service, typically provided online. Borrowers list the details of their request (the amount sought and the intended use) on a peer-to-peer lending website. Lenders browse the website to decide which loans to invest in.

Although not yet much used in monasteries, these models offer considerable potential as a source of capital for product development and sales business. This innovative finance technique creates a network of investors and spreads the financial risk. At the same time, these approaches are also serving the double purpose of providing finance and supporting local development: people invest in projects they care about and help local firms to generate income and to create jobs.

3.3. Planning of Equity Financing

Monasteries interested in obtaining equity financing must prepare a formal business plan, including complete financial projections. Like other forms of financing, equity financing requires an entrepreneur to sell his or her ideas to people who have money to invest. Careful planning can help convince potential investors that the monastery has a competent manager who will have an advantage over the competition. Overall, some equity financing instruments can be an attractive option for many small organisations, craftsmanships and monasteries, especially for new product development and sales activities. But experts suggest that the best strategy is to combine equity financing with other types, including the organisation's own funds and debt financing, in order to spread the business's risks and to ensure that enough options will be available for later financing needs.

Monastery managers must approach equity financing cautiously in order to remain the main beneficiaries of their own hard work and long-term business growth. Thereby they should be able to answer the following questions, which will be addressed in the fundraising process:

- What is the value proposition of the new product / service?
- What (quantifiable) users’ benefits does it provide?
- What is the product / service focus and the customer focus (B2B or B2C)?
- In what way does it have a unique selling proposition or first-mover advantage?
- How can it be lastingly sustainable?
- How is it scalable or expandable into adjacencies?

In this context, the following so-called “adjacency mapping” may be used as guideline on decisions to be taken, when it comes to implementing new product ideas from design to final sales:

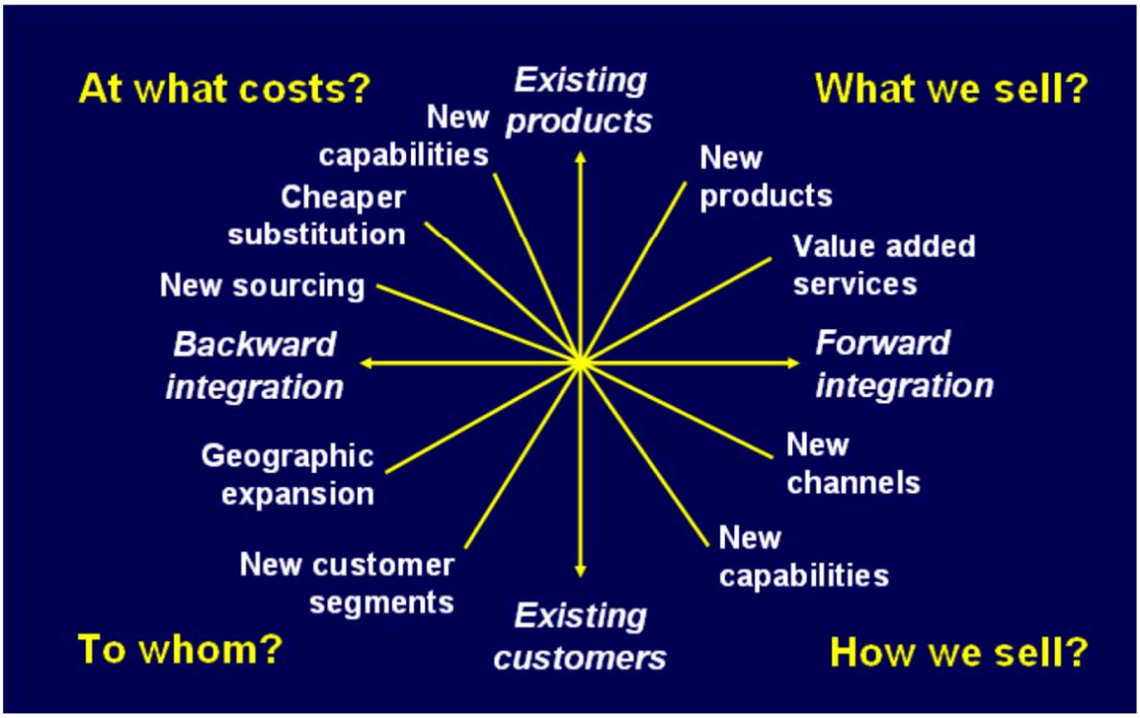

Figure 5. Every product development process needs to answer questions before raising funding

You can find a tutorial on scaling up innovative product development on: https://www.youtube.com/watch?v=Ca671vKbg7k&t=289s

Further Reading:

Barr, Stephen. "Where Cash is Anything but Trash." CFO: The Magazine for Senior Financial Executives. February 1998.

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Timmons, Jeffrey A. Planning and Financing the New Venture. Brick House Publishing Company, 1990.

Tags for Unit 3:

Equity Financing, Dividends, Stock Options, Mezzanine Funds, Venture Capital, Business Angel, Corporate Investors, Crowdfunding, Business Plan

Unit 4. Grants and other Funding Sources

The objective of this unit is to summarize in an easily understandable and accessible form the various sources of funding that are available via donations, grants and other similar funding instruments, most commonly supported by governments or not-for-profit aid organisations.

A grant is an amount of money to fund certain projects. One may receive a grant for academic, scientic or development work, or to further one's education or to engage in charity work. Grants are also a key part of many philanthropic foundations' activities.

A charitable donation is a gift made by an individual or an organization, mostly to a non-profit organization, charity or private foundation. Charitable donations are commonly in the form of cash, but they can also take the form of real estate, assets, appreciated securities, clothing and other assets or services.

Grants are non-repayable funds or products disbursed or given by one party (grant makers), often a government department, corporation, foundation or trust, to a recipient, often (but not always) a non-profit entity, educational institution, business or an individual. In order to receive a grant, some form of "Grant Writing" often referred to as either a proposal or an application is required.

Most grants are made to fund a specific project and require some level of compliance and reporting. The grant writing process involves an applicant submitting a proposal (or submission) to a potential funder, either on the applicant's own initiative or in response to a Request for Proposal from the funder. Other grants can be given to individuals, such as victims of natural disasters or individuals who seek to open a small business. Sometimes grant makers require grant seekers to have some form of tax-exempt status, be a registered nonprofit organization or a local government. Project-related funding involving business, communities, and individuals is often arranged by application either in writing or online.

The first Subunit 4.1 summarises the philosophy of regional, national and European grant schemes, available in European countries and for European stakeholders, while Subunit 4.2 lists other funding opportunities.

4.1. Subunit 1: Regional, national and European Grant Schemes

The EU provides funding for a broad range of projects and programmes covering areas such as:

- regional & urban development,
- employment & social inclusion,
- agriculture & rural development,
- maritime & fisheries policies,
- research & innovation, or
- humanitarian aid.

Funding is managed according to strict rules to ensure there is tight control over how funds are used and that the money is spent in a transparent, accountable manner.

As a group, the EU Commissioners have the ultimate political responsibility for ensuring that EU funds are spent properly. But because most of the funding is managed within the beneficiary countries, responsibility for conducting checks and annual audits lies with national governments.

Over 76% of the EU budget is managed in partnership with national and regional authorities through a system of "shared management", largely through five big funds, the Structural & Investment Funds. Collectively, these help to implement the Europe 2020 strategy:

- European Regional Development Fund (ERDF) – regional and urban development
- European Social Fund (ESF) – social inclusion and good governance
- Cohesion Fund (CF) – economic convergence by less-developed regions
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

Other funds are managed directly by the EU. These are provided in the form of:

- Grants for specific projects in relation to EU policies, usually following a public announcement known as a 'call for proposals'. Part of the funding comes from the EU, part from other sources; or
- Contracts issued by EU institutions to buy in services, goods or works they need for their operations – like studies, training, conference organisation, IT equipment. Contracts are awarded through calls for tender.

At the time being, the period of most funds and programmes covers the years 2014 to 2020. Consequently, the information contained in this module will also be accurate only for this period. However, the European Commission has already published its proposal for “Horizon Europe“, an ambitious €100 billion research and innovation programme that will succeed „Horizon 2020“ for the year 2020 to 2027. “**Horizon Europe** “will incorporate policy missions to ensure the effectiveness of research and innovation funding by pursuing clearly defined targets. The Commission has engaged policy experts to develop studies, case studies and reports on how a mission-oriented policy approach will work.

The various funds and programmes reflect the diversity of the cultural heritage sector's needs; and the range of EU thematic programmes that can consequently support it. The monastery and craftsmanship sector gets support from various programmes, but gathering and digesting information about many programmes remains a challenge for hard-pressed private and public entities.

Small businesses can obtain EU funding through grants, loans and guarantees. Grants provide direct support, while other funding is available through programmes managed nationally. EU funding search for small businesses is supported through the following website: https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance/index_en.htm.

Non-governmental & civil society organisations may be eligible for funding, provided they are active in EU policy areas and on a non-profit basis. Information about funding sources by funding topic may be found here: https://ec.europa.eu/info/funding-tenders/funding-opportunities/find-calls-funding-topic_en.

For brevity’s sake, this unit only covers what is indispensable to know for getting support. Therefore, it does not cover the following elements: references to the various acts underpinning a programme, starting with its financial regulation; its general governance; its actions targeting other sectors; its overall budget; changes in the budgetary allocation between programmes; etc. This generic information can be found through the hyperlinks above as well as in the following tutorial video: “Horizon 2020 – Funding Project Life Cycle“: https://youtu.be/sNLfJ8Vzc_c.

4.2. Finding other money for product development and sales

For finding other financing sources for product development and sales research on any other regional or national financial support programme is worthwhile. Monasteries and craftsmanships should not attempt a scatter approach, sending requests to a wide group of organisations. It can damage the organisation's credibility. Instead, one should try to identify the few funders that have interests that are in line with the organisational and project objectives. If you do not qualify, do not apply. Many funding agencies now have web sites, opening opportunities to look them up and see what they state. It is best to talk to the responsible persons at the funders before submitting a proposal.

Funder research and funding research is a two-step process. The first step aims to develop an initial 'prospect' list of some ten to fifteen funders who have general interests in the subject area of the monastery’s activities or project intentions. The second step involves further research and refines this list to the three to five funders one may approach.

Sources for funding can be found within the monastery’s locality, its country, as well as abroad. As stated earlier, a choice for many small local contributions means that you are growing local roots and a local constituency; in return for contributions these people would wish for a voice in policy making. Funding from local organisations has a number of advantages. The procedures are often easier to follow. And international donors want to know that local sources have been tried first. When applying for funds from abroad, the national registration of your monastery and formal approval of your project by your Order or Church is often necessary.

Locally, the main institutions to apply to for funds are:

- Local organisations – think of Rotary or Lions clubs, churches, temples, mosques, hospitals, local business associations, the 'rich' in your community etc.;
- Government or District institutions; or
- Funds are often available, especially if working in co-operation in the same field of interest. Think also of secondment of staff, use of their logistics etc.

Nationally, you might consider

- the big foundations,
- national banks or
- supra-regional institutions interested in social, ethic or cultural topics.

From abroad, possible sources include:

- Voluntary funding organisations

  These include missions, aid agencies and other groups, both religious and secular. Most of them are based in in Europe, North America and Australia. Such groups are often interested in supporting smaller-scale development and cultural or historical projects. A list of names can be obtained from national and voluntary organisations and from embassies.

In the fundraising initiative, owners and managers of monasteries and craftsmanships should also try **using already existing contacts**: You previously contacted NGOs working in the same field; where do they get their funding? Can you write to the same organisation?

- **Searching the web:**

Fund raisers should go to the websites of the big international organisations that cover the groups they are trying to find. If you type into the 'search' slot smart topic names, the sites tell you there are several projects like the one in your targeted product proposal. If you then look for contact information you will find the address of the regional office and an email address. You will find more tips on fundraising through donations under this link: https://youtu.be/IPac2YPpvAc

- **International Aid organisations:**

These include the United Nations Agencies such as WHO, UNICEF, UNDP, FAO, the European Commission (EC), the World Bank (WB), and Asian Development Bank (ADB). However, they do not often support small-scale projects directly. Funds from these sources are more likely to be available via national umbrella organisations. It is worth finding out what their contributions to the government and to bigger NGOs in your country are. This information will be available from your government (ministry) or from local UN and EC delegations etc.

- **Foreign Embassies:**

They often have funds available for small-scale projects. For example, Dutch Embassies have special funding sources for so called KAP projects. From these sources they can give direct support to projects with sums up to $20,000. Special procedures/criteria need to be followed.

After introducing the different forms and unique features of the financing possibilities available, it is obvious that various financing opportunities and financing models for different steps in the product development and sales initiation phases exist. The authors of this modul hope that your professional approach to financing your products will enable your monastery to be one of those that receive the funds they apply for. Let’s hope that this will open your doors to success:

Tags for Unit 4:

Grant Financing, Horizon 2020, Horizon Europe, Donations, WHO, UNICEF, UNDP, FAO, WorldBank

Good Practices

There are several good practice examples referred to in this module and you will find more in the **SKIVRE** library:

- Good practice 10. Kremikovtsi Monastery "St. George the Victorious" – Successful Sales with a Strong Brand
  Download link: https://training.skivre.eu/gp.php/GP10-EN

- Good practice 16. Three Steps Towards Fundraising Professionalism
  Download link: https://training.skivre.eu/gp.php/GP16-EN

- Good practice 17. Fundraising for NGOs – a Participant's Manual
  Download link: https://training.skivre.eu/gp.php/GP17-EN

- Good practice 18. Report "Access to Finance"
  Download link: https://training.skivre.eu/gp.php/GP18-EN

- Good practice 20. The Brand "Abbey Beer"
  Download link: https://training.skivre.eu/gp.php/GP20-EN

- Good practice 21. I segreti del chiostro - Monastic Products of Monastero Santa Caterina d'Alessandria Palermo, Italy
  Download link: https://training.skivre.eu/gp.php/GP21-EN

- Good practice 22. Products of Santa Maria Novella, Florence/Italy
  Download link: https://training.skivre.eu/gp.php/GP22-EN

Check your Knowledge

Exercises

Exercise 1. - What to look out for when financing a business

True-False Exercise

When you're financing a product development business through debt, you'll want to make sure you have a clear understanding of what your cost of financing really is.

For lots of financing options, the interest rate is just one part of the picture. Here are some other fees you'll want to be aware of when you're looking for business financing options. Please mark the correct ones:

- ☐ *Application fees*
- ☐ *Corruption payments*
- ☐ *Origination fees*
- ☐ *Tax authorisation fees*
- ☐ *Guarantee fee*
- ☐ *Banking commissions*
- ☐ *Check authorisation fee*
- ☐ *Late payment fee*
- ☐ *Prepayment fee*
- ☐ *Bank officers hourly rate*

(Important answers are here marked in green)

Exercise 2. - How equity investors think

Free text answers

Please explain in your own words what equity investors understand when using the following terms:

- **Profit Orientation:**

Answers: Business Model, USP, Expansion Perspective, Proof of Product, Management

- **Milestone Orientation:**

Answer: Targets are set with "stop loss" function

- **Exit Orientation:**

Answer: Sell Shares with Factor m in n Years

- **Engagement:**

Answers: Initiatives, Motivation, Consulting

- **Back-financing:**

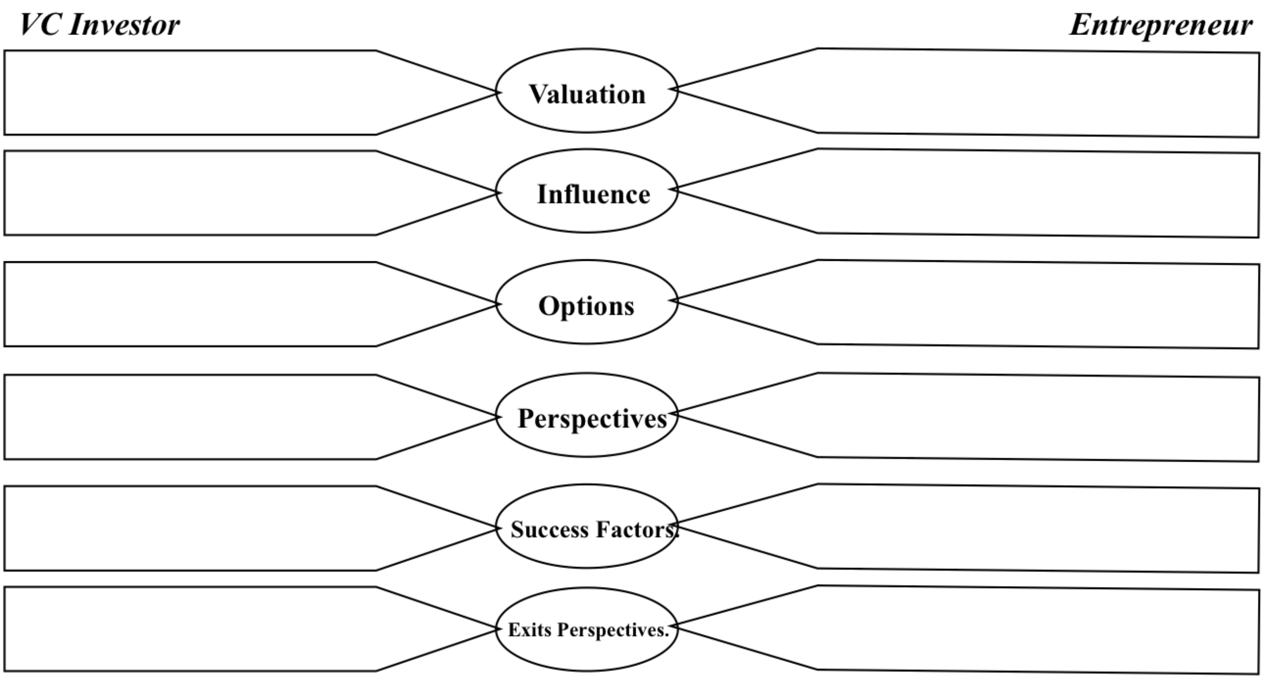
Answer: Minimizes Risks

Exercise 3. - Conflict of interest between product development entrepreneurs and VC Investors/Business Angels

Fill in the blanks

In the following chart you will find six (6) different potential areas for conflicts of interest between VC Investors/Business Angels on the one hand and the perspectives of product development entrepreneurs from the other point of view. Namely the areas for potential conflict of interests are: valuation, influence, options, perspectives, success factors, and exit perspectives.

Please fill in the blank fields to briefly explain the diverse areas of interest:



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European Union, Access to finance, Link: https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance/index_en.htm

European Union, Find calls for funding - by topic, Link: https://ec.europa.eu/info/funding-tenders/funding-opportunities/find-calls-funding-topic_en

EU publications, Towards more efficient financial ecosystems. Innovative instruments to facilitate access to finance for the cultural and creative sectors (CCS): good practice report – study, Link: https://publications.europa.eu/de/publication-detail/-/publication/f433d9df-deaf-11e5-8fea-01aa75ed71a1

Training Manual - Fundraising for NGO's. Download link: https://de.scribd.com/doc/98786463/Training-Manual-Fundraising-for-NGO-s

Ernest Hayes, M.B.A.,B.Sc., Fadumo Alin, M.A.,B.A.,Lia van Ginneken, B.A. R.N., “A Guide to Fundrising”, Download link: https://www.scribd.com/document/335134792/A-Guide-to-Fundraising

Videos

KRWGnews, Monks Sell Coffee To Raise Funds For Monastery, 2014.
Video link:https://youtu.be/QyFxDUDFB_4

Skillshare, Understanding Debt vs. Equity Financing with Bond Street.
Video link: https://www.youtube.com/watch?v=cg9RgzYzrK8&t=177s

BlueBookAcademy.com, Equity vs Debt Funding Explained - Case Study,
Video Link: https://www.youtube.com/watch?v=G6-NZ2iFq9c&t=176s

Mergers & Inquisitions / Breaking Into Wall Street, Debt vs. Equity Analysis: How to Advise Companies on Financing,
Video link: https://www.youtube.com/watch?v=MrupJdMrpaE&t=65s

Estate Baron, What is the difference between debt vs equity funding?
Video link: https://www.youtube.com/watch?v=sFE_1hPoR3U&t=15s

Kauffman FoundersSchool, Scaling Your Company: Scaling Product Development.
Video link: https://www.youtube.com/watch?v=Ca671vKbg7k&t=289s

„Horizon 2020 – Funding Project Life Cycle“: https://youtu.be/sNLfJ8Vzc_c

Ayda Sanver, Fundraising Tip- How To Ask For Donations. Video link:
https://youtu.be/IPac2YPpvAc

The SKIVRE Partnership: Empowering development of monastic products

SKIVRE is an Erasmus+ project aimed at empowering management, staff, monks, and nuns at monasteries with a most interactive training approach in gaining relevant skills for raising revenues for the preservation of religious heritage sites:

The **SKIVRE** homepage www.skivre.eu (including access to many social media tools) provides you with an inspiring multi lingual blog on monastic products, data and analyses, training material and training events in seven European countries.

The partnership comprises a multidisciplinary European team, which represents the target groups and expertise needed for training development:

media k GmbH | GERMANY (coordinator)
media k GmbH offers long-year expertise in religious heritage preservation and in the management of heritage preservation projects.
www.media-k.eu

Future for Religious Heritage | BELGIUM
Future for Religious Heritage is a non-faith organisation open to all. It brings together those working to protect religious heritage all over Europe.
www.frh-europe.org

GUNET | GREECE
GUNET is a Greek specialist in creating online learning platforms, which offer different kind of learning experiences adapted to different topics.
www.gunet.gr

INI-Novation Bulgaria OOD | BULGARIA
INI-Novation is an education provider specialised in generating economic effects from cultural heritage.
www.ini-novation.com

Bronnbach Monastery | GERMANY
Bronnbach monastery is a former Cistercian monastery now operated by a public authority in the German Tauber valley. The monastery started to develop monastic products based on the history of the site.
www.kloster-bronnbach.de

Wissenschaftsinitiative Niederösterreich | AUSTRIA
Wissenschaftsinititative is an education provider with longstanding experiences in developing learning platforms and learning material for heritage preservation.
www.wissenschaftsinitiative.at

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