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Udruga MI

Fee for Services: Daily Program Activities Meeting Financial Needs

Established in 1996, Udruga MI is a non-profit organization dedicated to supporting the personal and social development of refugees through professional psychosocial work. With the aim of strengthening its sustainability, Udruga MI started considering income generating options as early as the establishment of the organization. Concrete steps were taken in 2002 when the organization began charging other CSOs for trainings on volunteer management and strategic planning. The main revenue generating activity began to develop in 2003 when Udruga MI introduced a new and fee-based service to its beneficiaries, mostly senior citizens done in cooperation with the municipal government. At present, the self-financing activity manages to cover some of its direct costs, i.e. the total salary of one professional, although not all operational costs. It is expected that revenue will continue to increase over the next three years and it will continue to be allocated to cover the costs of logistics and a greater percentage of staff salaries for the meal delivery program. The latter constitute the largest on-going cost related to the self-financing activity. The goal is that the self-financing activity will cover all of the costs of the meal delivery service and contribute to the budget of other social services provided by Udruga MI.

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This case was prepared by the Nonprofit Enterprise and Self-sustainability Team (NESsT), an international nonprofit organization with offices in Budapest, Hungary and Santiago, Chile. NESsT is committed to strengthening the financial sustainability of civil society organizations (CSOs) working for social change and development through the development of self-financing strategies that both generate additional income and further the missions of CSOs.

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Udruga MI's mission is to support the personal and social development of refugees through professional psychosocial work.

1. Background

Udruga MI is a non-profit organization established in 1996. It developed from work with refugees and displaced persons carried out within the framework of the International Rescue Committee. The Committee aimed to contribute to the evolution of a welfare state in which personal development and care for others are promoted. Udruga MI's mission is to support the personal and social development of refugees through professional psychosocial work.

Udruga MI has three main fields of activity: 1) an information center for refugees, 2) a volunteer center in Split, which promotes volunteer work and cooperation between various sectors of society and 3) the "We and the Wisdom of the City" program which is geared toward meeting the needs of senior citizens through counseling, educational programs, volunteer work, etc. In 2004, Udruga MI established a separate social welfare institution whose main activities directed at senior citizens include the provision of home care, counseling and entertainment services as well as home delivery of cooked meals.

In line with the statute of the civil society organization (CSO), Udruga MI is managed by the four-member Steering Committee, the five-member Advisory Board comprising external members and the Assembly of 40 members. Currently, the CSO employs 12 full-time staff and one part-time staff, in addition to relying on the work of 54 volunteers.

2. Financial Information

2.1. Income

In 2004, the budget of Udruga MI amounted to HRK 1.8 million (approximately 320,000 USD) to which self-financing activities¹ contributed a modest 3.5%, slightly more than 2.3% which was the case in 2003. The CSO relies overwhelmingly on foreign donors to raise the needed funds. In 2004, their contributions accounted for 75% of the total budget, up from 64% in 2003. Government grants were the second most significant source, contributing 16.5% in 2004, down from 23% a year earlier. A small portion of the budget was raised through individual grants, 4.3% in 2004, down from 10% in 2003. At less than 1%, in-kind donations remain the smallest budget line.

In 2005, the organizations plans to increase government support to 35%, and will come from the local government of Split and the National Foundation for the Development of Civil Society. Income earned from self-financing is expected to remain at the same level, contributing 4% to the total budget. The bulk of the budget would continue to be secured through foreign donations, although at a

¹ NESsT uses the term "self-financing" to refer to diverse strategies used by civil society organizations to generate their own revenues (sale of products, service fees, use of hard or soft assets, and dividends or investment income). NESsT uses the term "social enterprise" when these strategies are carefully assessed and planned to significantly strengthen the financial sustainability and the mission impact of the CSO.



lower proportion than in the previous year - 6 0%. Donors include the UNHCR, USAID through Academy for Educational Development, Charles Stewart Mott Foundation, National Foundation for the Development of Civil Society, OSCE, Cooperating Netherlands Foundations, the European Commission, Ministry of Social Welfare, City of Split, and others.

2.2. Expenses

At 70% in 2004 and 67% in 2003, programs and activities continue to account for nearly two-thirds of the budget. Administrative and office expenses fell from 14% in 2003 to 11% in 2004. While fundraising costs remain at a symbolic 1%, equipment and investment accounted for significant 18% in 2004 and 2003. The expenditures for 2005 are planned as follows: programs and activities 75% (including staff salaries), administrative costs 12%, equipment and investment 12%, fundraising 1%.

<u>EXPENSE</u>	2005 (projected)	2004	2003
Administrative/Office expenses	12%	11%	14%
Fundraising expenses	1%	1%	1%
Programs/Activities	75%	70%	67%
Other (specify):			
Operative costs	12%	18%	18%
<i>Total</i>	100%	100%	100%

The main revenue generating activity began to develop in 2003 when Udruga MI introduced a new and fee-based service to its beneficiaries.

**Table 1: Sources of Income (2003)-(2005)
(Percentage of Total)**

<u>SOURCE</u>	2005 (planned)	2004	2003
<u>FOREIGN/INTERNATIONAL SOURCES</u>			
- foreign/international grants	60%	75%	64%
<u>PUBLIC SOURCES (LOCAL/NATIONAL)</u>			
- government grants	35%	16.5%	23%
<u>PRIVATE SOURCES (LOCAL/NATIONAL)</u>			
- individual donations	0.5%	4.3%	10%
<u>SELF-FINANCING</u>			
- membership dues		1%	0.3%
- product sales		2.5%	2%
<u>IN-KIND DONATIONS</u>			
	0.5%	0.7%	0.7%
TOTAL	100%	100%	100%



3. Self-Financing Activities

With the aim of strengthening its sustainability, Udruga MI started considering income generating options as early as the establishment of the organization. Concrete steps were taken in 2002 when the organization began charging other CSOs for trainings on volunteer management and strategic planning.

The main revenue generating activity began to develop in 2003 when Udruga MI introduced a new and fee-based service to its beneficiaries, mostly senior citizens. In cooperation with the municipal government of the City of Split, Udruga MI started to provide daily home delivery of cooked meals. The introduction of the fee caused some discussion within the organization as to whether this move was justifiable and in line with the mission. But once it became evident that the beneficiaries were very satisfied with the service, it was no longer considered an issue.

More than 60 elderly customers are serviced each day and over 20 are currently on the waiting list, as the meal delivery service has had to face capacity constraints, mostly in the kitchen and transport area. At the same time, the visibility of the organization and the service itself has increased a great deal.

As part of the services to senior citizens, Udruga MI organizes various activities during the day, in which people can participate and thus spend their time in a useful way. One of the ideas for such activities was to teach beneficiaries the art of floral arrangements, and then provide them space and raw materials to produce their own products. Plans are that Udruga MI will start selling these floral arrangements and thus be able to recover some of the costs of the program.

The introduction of the fee caused much discussion within the organization as to whether this move was justifiable and in line with the mission.

Table 2: Types of Self-Financing

1. Membership dues	Udruga MI collects symbolic membership dues.
2. Fees for services	Delivery of warm meals to elderly people on a daily basis, using own cars. NGO staff provides training for other CSOs and institutions (town and county authorities, schools etc.) on issues such as volunteer management, strategic planning, and project cycle management.
3. Product sales	Beneficiaries of the CSO work as volunteers in the production of floral arrangements to be sold to the public. Sale of publications (booklets and manuals) and T-shirts.



4. Start-Up

The initiative to start the meal delivery service came from the Social Welfare Department of the municipal government of the City of Split, which had been delivering cooked meals for elderly people on a daily basis. They had been aware of the needs of elderly citizens and wanted to take steps to improve their living conditions. When Udruga MI took over, it asked that the cost of the service be covered partly by the municipality, partly by the beneficiaries themselves. Such arrangement secured sufficient funds so that Udruga MI could hire one employee to work exclusively on the meal delivery activity. In spite of some initial questions about the implications of providing a fee-based service to the beneficiaries, most organizational stakeholders supported the idea of the organization using self-financing strategies. The research conducted prior to starting up the activity included a needs assessment, which showed that this meal delivery service was a low risk undertaking, as significant demand existed for hot meals.

The necessary resources and equipment needed to start-up the activity were secured through both cash and in-kind donations. Office space and the vehicle for distribution of the meals were provided by the Municipality. Funds in the amount of HRK 500,000 (USD 88,000 approximately) were secured by a grant from a Dutch private foundation.

5. Management

After the initial launch, the self-financing activity has been managed by existing organizational staff. Five new staff members were hired at the beginning to implement the activity: a program manager, a part-time social worker, an employee working on the provision of the service and two drivers delivering the meals. In addition, management estimates that up to one-third of its time is dedicated to managing the self-financing activity. The program manager, whose academic background is in economics, also has previous experience in running a small business.

In August 2005, a separate legal entity, a nonprofit social institution (Center) was founded by Udruga MI to provide services to elderly people in their homes. The organization also transferred the home meal delivery to the Center. The city government initially subsidized the Center providing for the salary of the social worker; however Udruga MI will now have to fundraise to cover operational costs until the Center becomes self-sustaining.

6. Effects of Self-Financing on the Organization

6.1. Financial Performance of the Self-Financing Activities

At present, the self-financing activity manages to cover some of its direct costs, i.e. the total salary of one professional, although not all operational costs. It is expected that revenue will continue to increase over the next three years and it will continue to be allocated to cover the costs of logistics and a greater percentage of staff salaries for the meal delivery program. The latter constitute the largest on-going cost related to the self-financing activity.

Revenues from the meal delivery service now cover the salary of one full time staff and some of its operating costs.



6.2. Social Impact

It is felt that the self-financing activity has had a positive impact on the mission of the organization. In fact, one of the greatest benefits of the meal delivery service has been the ability of the Udrugu MI to contribute to the improvement of the quality of life of senior citizens.

Self-financing has made it possible for the organization to maintain the existing level of services to clients. Some stakeholders, mainly the beneficiaries and volunteers, have become more involved in the organization.

6.3. Financial Sustainability

Revenues from the meal delivery service now cover the salary of one full time staff and some of its operating costs. It is planned that self-financing should cover up to 100% of the meal delivery service direct and operational costs, and up to one-quarter of the entire organizational budget. Given the target market's strong satisfaction with this service and with some thirty potential beneficiaries on the waiting list, there is strong indication that demand for services will continue to increase. If Udrugu Mi can respond to this demand, there is a strong likelihood that the objective of covering the costs of the enterprise and part of the costs of the organization will be met.

6.4. Organizational Sustainability

Since the self-financing activity began, the CSO has been able to allocate more financial and human resources to its mission related-activities. It opened new areas of services, there is more competent staff and the overall organizational capacity has increased.

Self-financing has also had a positive impact on organizational culture. The CSO has remained mission and beneficiary oriented while at the same time, also more entrepreneurial and risk-taking. It has, moreover, enabled the organization to increase the number and size of existing activities, as well as introduce new ones. This has, in turn, increased the number of constituents the organization is able to reach through its activities.

Although self financing has had no direct impact on the CSO's fundraising, it has resulted in additional contracts and hence greater cooperation with local government. Overall, the image and reputation of the organization has improved significantly among all stakeholders, albeit this came almost as a surprise and a welcomed side effect.

However, self-financing has also had some negative impacts. An increase in activities and workload brought about by the home delivery program has been difficult to manage with the existing resources. Additional funding has been raised for projects in order to help overcome some of these initial difficulties.

Self-financing has made it possible for the organization to maintain the existing level of services to clients.



7. Conclusions and Lessons Learned

Udrugu MI's meal delivery service developed organically from existing activities mainly in response to the needs of their beneficiaries. It was encouraged and supported - financially as well - by the city government, which considers the association to be an important provider of social services in Split. Beneficiaries also supported the launching and expansion of the meal delivery service, as they see a great need being met in a professional and humane manner.

Yet, Udruga MI has had to face great challenges in setting up and running the service. Start/up costs were high and difficult to meet, in spite of the financial commitment from city authorities. There is a continuous need for further funds to cover operating costs, until the meal service can become self-sustaining, and begin to contribute to Udruga MI's overall budget.

The other major challenge has centered on staffing and Udrugu MI's ability to manage the service both as part of the organization and later as part of the Center. It has been difficult for the organization to find people with the right skills and to fund their salaries. There have also been organizational cultural tensions and discussion among staff over the issue of fee-based versus free of charge services. Udruga MI had managed to deal with these challenges more or less successfully albeit managing growth continues to be an issue.

The association firmly believes that self-financing will become an important revenue source in the future while continuing to fulfill important mission goals. There are other activities related to social service provision that could potentially turn into social enterprises. By expanding this type of enterprise, Udruga MI is leveraging the entrepreneurial potential and capacity of its staff, tapping into the entrepreneurial spirit of its beneficiaries, all while becoming self-sustainable.