



MODULE NR 8

I budget for my green business

Learning outcomes

You will learn here:

- To understand the basics of financing and budget planning.
- To use helpful digital tools to calculate your green business.
- How to find funding possibilities
- How to draw up a budget for a green activity



Figure 1: Budget

Basic information



In this module, you will learn methods to budget your green business.



This module contains two exercises.



You will need 15 h to finish the module.



You need 66% correct answers to pass this module.



Your lecturers are Amer, Ahmad and Peter.

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Content

LEARNING OUTCOMES.....	0
BASIC INFORMATION	0
CONTENT	1
WELCOME TO MODULE 8!.....	2
BASICS OF BUDGET AND CALCULATION	2
Typical costs.....	4
The first estimation of your costs.....	7
Tools for calculation.....	9
Digital Tools of calculation	9
Examples of Digital Tools for calculation	12
Quickbooks.....	12
Freshbooks.....	14
Financing your green business	16
Types of pricing.....	17
Income generated externally	18
Forms of generating money externally.....	19
Essential Terms in financial management.....	23
Getting paid on time.....	26
USEFUL LINKS	27
REFERENCE LIST	28
LIST OF FIGURES.....	29

Welcome to Module 8!

This module is about budgeting your green business. First, we will familiarise you with the different cost categories. And you will start to make a rough estimate of the expected costs for your green business idea. We will also introduce you to digital tools you can use in calculating. The last section of this module will then deal with the concrete financing of your green business. In doing so, we also address the question: How can you find external funding sources until you reach the point where your business generates enough revenue to cover all costs and make a profit? At the end of this module, you will be able to calculate how you would finance your green business.

Basics of budget and calculation

According to the Small Business Administration, studies have shown that only 5 out of 10 small companies survive longer than five years, and only a third make it to 10 years or longer. (Horton, 2021)

This is even more important for refugees and migrant business owners because there is a much smaller family- and friend network in their host country to rely on - if things go wrong. (Andura, 2020). The key to a successful business is preparation.

Costs of Running a Business

All business owners must have good financial planning skills and understand how much money they need to run their business **(this is called expenses)** and how much money is coming into the business **(this is called income)**.

The first step in turning your green business idea into life is considering all the costs of setting up a business.

You will also need to consider a personal survival budget for the months you spend all your efforts setting up your business. What essential costs will you need to cover so that you and your family have enough money to survive?

This section helps you to think about these costs. Here are some typical expenses for starting and running a new business that you might need to consider. Some of them might be essential costs; others might be desirable.

Typical costs

Setting up your business will involve costs if you decide to be self-employed or start a Limited Company. It will be different for each country within the European Union, but you need to look at the best structure.



Look at Module 7 to learn more about this.

Here we want to give you an overview of the typical cost you might have as a green business owner.

Salaries and associated costs

Consider full-time and part-time staff salaries and other costs such as national insurance and pension costs if relevant. Will you be hiring casual or temporary workers? Do you know how much these workers will cost the business? There may likely be periods when you don't pay yourself a wage as the business owner because the company can't afford it. Awareness of this and its impact on your family and personal finance is essential.

Training and development

Include a small budget for the training and development of you and your staff. For example, if you set up a food catering business, your team will need to be trained in Food Hygiene. These are sunk costs, as you cannot recover them once they have been incurred.

Travel costs

It might be necessary to include a small budget for travel. For example, if you need to source your suppliers from across the country or broader, you might need to travel to meet with them.

Marketing

It would be best if you cost out how much money you will need to raise awareness and promote the business, do think carefully about how much to put aside. You can do great promotional activity through social media and online marketing, and you might not need a big marketing budget. If you have an exciting story, local and national newspapers might pick this up, and you will reach many people. You should spend some money on your website.

Rent or mortgage

You will need money to pay rent, or if you have bought a building, the mortgage payments will have to be paid each month. Think carefully about whether you need to have a business space, operate the business from home, or share space with another company. Nowadays, there are many spaces you can rent monthly, so you don't need to spend a lot of money upfront. There are also many enterprise competitions where you can get free space for a year, alongside business support such as mentoring and coaching, which would be worthwhile exploring.

Business Rates

You might have to set aside some money to pay for business rates.

Utility bills

You will need to think about and estimate how much money you will be spending on electricity and gas. Put aside money for your water rates if these are not included in the rent.

Supplies and Services

This could include costs such as paper, postage, stationery, phone costs, and courier costs, and then depending on what type of business you are setting up, there will be other costs (e.g., a food production business will need to buy suppliers, a digital company will need to purchase software)

Equipment

Think about what equipment you need: tables, chairs, IT, catering equipment? To get the business up and running, think about what you need as a minimum for setting up; the rest you can purchase later (e.g., can you get some of this equipment second hand, using e-bay, gumtree, and other online services?)

Meeting rooms

Your business might need to rent meeting room space, or can you think of ways around this? (E.g., meeting in cafes, sharing space with other companies, asking for meeting room costs to be included in the rent, or partitioning off existing space to have a small meeting room?)

Bank charges

There are likely bank charges if you have a business bank account.

Professional services

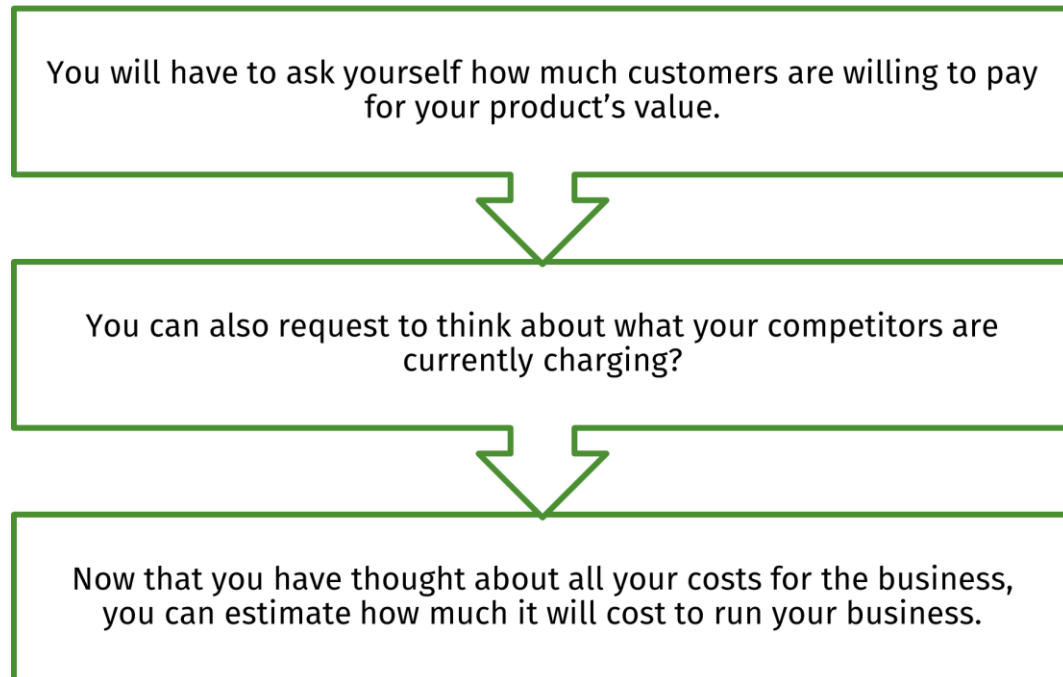
You might need accountants, lawyers, or insurance for your business. These are all costs you can consider and include under this heading.

Contingency

Setting aside money to deal with unplanned activities or events is helpful.

The first estimation of your costs

Once you have identified all your costs, you can calculate what needs to be charged for the service or product you sell.



Now you can create a table with two columns. You enter all relevant cost categories in the first column, one below the other. In the second column, enter an estimate of the costs for each cost category that is as accurate as possible. When you have entered all estimated costs, calculate the sum of all costs.

cost category	estimated amount
Salaries and associated costs	€ 3 000,00
Training and development	
Travel costs	
Marketing	€ 500,00
Rent or mortgage	€ 1 500,00
Business Rates	
Utility bills	€ 300,00
Supplies and Services	€ 200,00
	€ 5 500,00

Figure 2: First estimation of costs

EXERCISE 1



M 8_E 1: Starting to calculate – the first estimation

Open a writing programme or take a sheet of paper. On the top, write the number of the module and the number of this exercise.

Please start to calculate what your business will cost; this exercise should be just a quick overview.

Therefore, consider all relevant cost categories for your planned green business.

When you have completed the exercise, name your digital document after the number of this exercise and save it in the folder to Module 8! If you did the exercise on paper, take readable photos and keep them.

Tools for calculation



Here you will find some helpful tools to calculate your green business and personal budget.

Knowing your Survival Budget will first indicate how much sales and profit your business needs to achieve.

These costs will also have to be covered when setting up a business. It is crucial to have a clear idea of these costs.

Digital Tools of calculation

In the past, many small businesses depended on Excel and Google sheets to manage their budgets, but it is being proved that spreadsheets suffer from a higher risk of human error.

And recently, many companies, specifically small business or Solopreneurs, have moved their budgets and accountancy to the cloud for many reasons.

Why Should I move to cloud-based budgeting and accounting software?

Cloud-based budgeting systems are less expensive than traditional ones.

No need for IT staff; those systems offer excellent technical service.

Enable small business owners to control their budgets in an organised and uncomplicated way.

No need to spend much time training on using the tool.

They also offer a library of tutorial resources, recorded webinars, and knowledge bases.

Also, there are many features to consider when choosing the best-fit software for your business.

Cloud-based software has advantages like:

- Access anywhere by multiple users.
- Timesaving.
- Provide live supervision and Tracking.
- User-friendly.
- Has an excellent reporting interface.
- Frequently updated.
- Quickly integrated.

It is not easy to compare different options on the market; there are plenty of options with customised plans, from limited features for small businesses that will not break the bank to full-scale spend management solutions targeted toward medium to large corporations.

Selection criteria for Digital Tools of calculation

Before deciding on your purchase system, you must fully understand your business's current and future needs.

Ask yourself these questions:

-  What features do I need for financial management?
-  Do I need all the features provided? Or will I pay for something that will never be used?
-  Can we expand the plan/package if the business starts to boom or if we hire more people?
-  How many people will use it?
(The more users, the more expensive it gets.)
-  How long will it take me to set it up and start using it?
-  Does it provide my language or the languages of my employees?
-  How easy is it to get technical support? Is it free?
Or do I need to pay for it?
-  Is it possible to integrate it with other software I'm already using or planning to use in the future?
-  Do I want to connect it with the Tax office where I'm registered? Is this possible with this tool?

Examples of Digital Tools for calculation

There are tens of cloud-based systems in the market; we will share some information about a few.

Quickbooks



Figure 3: Source Quickbooks

Our top overall pick for the best budget software for small businesses is QuickBooks Online. Although QuickBooks is considered accounting software, it can automate all your financial business tasks, from invoicing and billing to sorting expenses.

The user-friendly interface and dashboard let you easily track your budget and costs. (“7 Best Business Budget Software for 2022 - NerdWallet”)

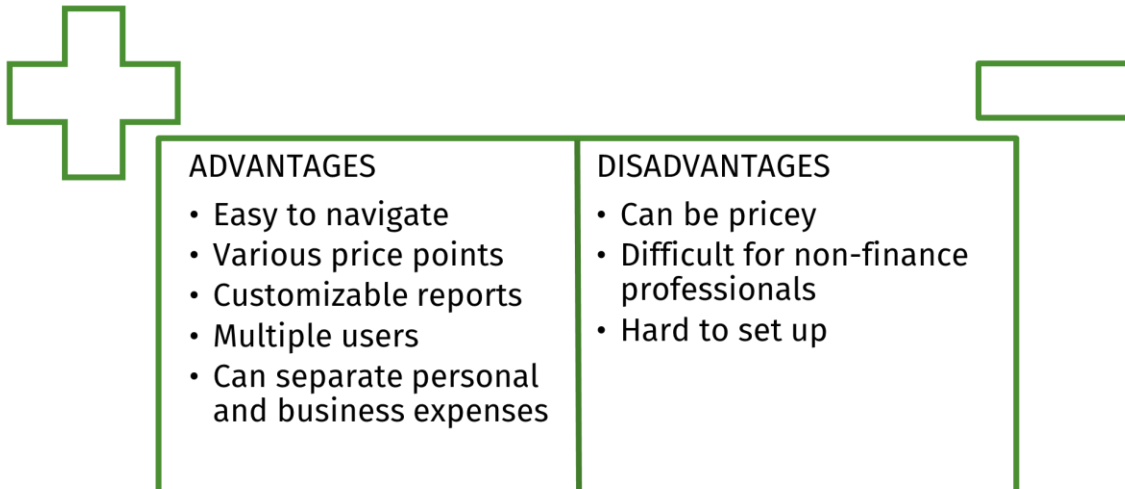
Most importantly, QuickBooks Online has robust reporting capabilities. Small businesses can build customised reports or select one of QuickBooks’ built-in reporting options, making generating profit and loss statements and other critical financial information more accessible. If you want to customise your software, QuickBooks also allows you to choose from hundreds of integrations.

QuickBooks Online offers four pricing plans for small businesses: Simple Start, Essentials, Plus, and Advanced.

These are the features:

- Invoicing and payments
- Income and expense management
- Track sales and sales tax
- Capture and organise receipts
- Run standard reports

Here you will find an overview of the advantages and disadvantages of Quickbooks:



ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">• Easy to navigate• Various price points• Customizable reports• Multiple users• Can separate personal and business expenses	<ul style="list-style-type: none">• Can be pricey• Difficult for non-finance professionals• Hard to set up

Freshbooks

FreshBooks is another well-known business accounting and budgeting software for small to medium-sized businesses and is ideal for companies that want essential budgeting tools.

(“7 Best Business Budget Software for 2022 - NerdWallet”)



Figure 4: FreshBooks Logo

With FreshBooks, you can create and view estimates during budgeting. FreshBooks also allows you to control your budget efficiently with its expense tracking system. However, it is essential to note that FreshBooks cannot handle complex budget planning.

Four versions of FreshBooks are Lite, Plus, Premium and Select. The Premium and Select versions are skewed toward larger businesses, while the Lite and Plus versions are geared toward self-employed and small to midsize companies.

The Lite version is the cheapest, costs Euro 15 per month, and provides unlimited expense entries, custom invoices, custom functionality, etc.

Advantages and disadvantages of Freshbooks:



ADVANTAGES

- Easily integrate with other web services
- Very easy to navigate
- Sophisticated reporting
- Simple invoice creation

DISADVANTAGES

- Can get very expensive with higher plans/adding team members
- Doesn't allow for complex budgeting

Financing your green business



Figure 5: Financing

Your enterprise's primary funding source will ultimately come from within the company through selling products and services.

However, until you get to that point where the business is generating enough income to cover all the company's costs and create a profit, you will need to think about external funding sources.

These external sources of finance will come in handy, not just at the early development stages of the business but also when the company is seeking to develop and expand.

Access to sufficient finance enables a business to remain in the market. However, where and how you finance a business can differ between success and failure.

The most important source of income for your business will be what you generate through selling to your customers.

The key to making money from your customers is understanding their problems and ensuring your product or service provides them with the perfect solution.

The business must get this right and understand the value they are adding to the customer from the business perspective. Once this is understood, it makes establishing pricing structures much easier.

There are two different ways to decide on the prices of your products or services. These are cost-plus pricing or value-based pricing.

Types of pricing

Business owners should consider their market and pricing best suit their product or service.

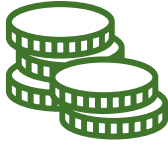
Cost-plus pricing

Cost-plus pricing is where you add up all the costs to your business of making a product or service, and then you add to this a mark-up percentage which is the amount you think is reasonable to add a profit. This will, of course, depend on what similar products or services are charging.

Value-based pricing

For example, certain goods have an “expected cost,” i.e., a cup of coffee. This approach is most successful when a product is sold on emotions, for example, a feel-good factor, or if it is sold when there is a shortage, e.g., on a hot day when most ice cream cones have entirely sold out, a seller using value-based prices could increase the cost of ice cream by 300%.

Income generated externally



It would help if you were the first investor of your business, either through cash or any valuable belongings, e.g., a house.

This proves to investors and bankers that you genuinely believe in your business and have a long-term commitment.

However, this is practically impossible for many refugee business owners as they likely have very little cash or assets in their host country.

There are other ways to demonstrate personal investment; for example, commit to not drawing a wage until a loan is repaid, but this would depend on your circumstances.

Getting to the stage where you generate enough income from your customers might take a while, so you might need to access money outside the business.

You might also need to access finance externally to expand quickly. Make sure you know the different ways you can access money externally, and the advantages and disadvantages of each could be the difference between business success and failure.

Depending on your stage of migration and the stage of your green business, you find different opportunities to finance your enterprise.

We recommend looking for substantial funding for your green business.

There are plenty of grants to support green entrepreneurs. Ask your local authorities.

Forms of generating money externally

There are other forms of how you could generate money externally:

Family and Friends

Money loaned by family and friends is another primary source of finance for start-ups. This is money that will be repaid later as business profits increase. As a refugee or migrant business owner, accessing this type of borrowing is harder as networks of trusted family and friends might be virtually non-existent in the host country. Many migrants and refugees might have family and friends at home or in other countries willing to loan them start-up money. Money transfer organisations such as Western Union have simplified the way this can be done, making these funds more accessible.

Venture capital

You can also source money for your business through venture capital. This is where you give up a share of your business in exchange for financial and sometimes expertise. Venture capitalists tend to prefer larger-scale projects.

Angels

Angels are generally wealthy individuals looking to invest in small businesses. They are likely to have significant knowledge, expertise, and valuable contacts and networks in the sector they are looking to invest in.

Business incubators

Incubators across Europe support new business starts in various stages of development. Incubators will likely invite companies to locate within their premises and take advantage of shared workspace and administrative

resources. The incubators tend to offer support programs that could include mentors and coaches, advice, and guidance to accelerate the development of the business. Business Incubators tend to be selective by sector, geography growth, and business scale. Increasingly incubators across Europe are supporting Refugee and Migrant entrepreneurs.

Government grants and subsidies

Many government agencies provide financing, such as grants and donations that may be available to your business. Each country will have its business support programs for small start-ups provided by each government, and it is worth looking at whether your business qualifies. Make sure you allow for significant amounts of your time to be taken up with applying and keeping the proper paperwork for grants.

Bank loans

Bank loans are the most used funding source for small and medium-sized businesses. This is simply a sum borrowed and paid back, usually with interest. A bank loan can be quick; you will likely need a business plan and must set up a business bank account. This might be difficult if you are new to the country and have limited documentation to evidence the bank's requirements and a limited track record in the country you are now living in. Depending on cultural norms, there are alternative banking options, e.g., Islamic Banking, where Sharia Law does not charge interest. It is helpful to talk to a business advisor about how different ways in which you can overcome this.

Crowdfunding

Crowdfunding is an instrument of early-stage financing and provides venture capital for establishing young companies or funding innovation and expansion projects in SMEs. Crowdfunding platforms usually handle it which providing contracts, offering advice, and supporting implementation with technology and standardised processes.

Microcredit

A small loan given to those without a steady income source or any credit history. It aims to support and kickstart entrepreneurs who cannot obtain the financial backing needed to start a small business or capitalise on an idea. (“Microcredit - Overview, How It Works, History, and Disadvantages”)

Savings groups

Saving groups support people who don't have access to financial services to save money and learn vital financial skills.

(“Savings groups, microfinance and financial inclusion”)

They are a form of microfinance involving small groups of 15 to 25 members with well-defined procedures. They allow members to make basic rules about saving and borrowing and operate train parent and democratic ways. This creates a secure system that encourages responsible use of the group's savings, borrowing, and social insurance services.

EXERCISE 2



M 8_E 2: Budgeting your planned Green Business

Open a writing programme or take a sheet of paper. On the top, write the number of the module and the number of this exercise.

Please calculate how you would finance your green business. To this purpose, please make either use of

- Digital Tools for calculation
- or create your own table (using a software for spreadsheet calculation or a writing programme)

Consider all relevant categories and calculate how your green business will survive the first months (Forms of generating money externally).

When you have completed the exercise, name your digital document after the number of this exercise and save it in the folder to Module 8! If you did the exercise on paper, take readable photos and keep them.

Essential Terms in financial management

Once you have estimated the costs of running your business and know how you plan to generate revenue internally and externally through other sources, your next step is to manage the money and cash out within the industry.

To do this, we will introduce some processes and tools to help you manage your money. This section will present budgets, cash flow forecasts, profit and loss, and the break-even point.

Budgets

A budget is a financial plan for spending your money; it allows you to see if your organisation is worthwhile. It provides a way of measuring your forecasted spend against the actual spending.

A budget is a financial map and tends to be 12 months in duration and linked to the Tax Year of the country you are working in. Funding is a crucial decision-making tool in the planning and financial management processes. The budget translates the planned activities of the organisation into economic terms.

So, profit can be defined as how much money the business makes once all expenses are deducted from the income earned. If this number is negative, the company is not making a profit but a loss. "There is a difference between gross profit and net profit." ("Business – TaxUni") Gross profit is calculated by looking at the money you have made by selling your services or goods (Total Revenue) and subtracting this from the cost of goods or services sold. Net profit is calculated by subtracting your operating costs and the cost of goods or services sold from revenue.



Cash

All income generated by the business activity is the amount of money available and accessible to pay the bills. It is important to note that profitable businesses can fail if there is insufficient cash in the bank. Therefore, cash flow management is critical to the success of any business.

The Break-Even-Point

The BEP is reached when total sales revenues (income) are sufficient to cover all business costs (expenditure), including fixed and variable costs.

Cash Flow

The Cash Flow is the amount of money flowing in and out of your business at any time. (“Cash Flow vs Profit: Differences, Examples, and Recommendations”) Forecasting what this might be is a handy tool to help your business stay on top of its finances and understand where the pinch points are. Cashflow forecasts are used to predict the ability of a company to pay its bills and expenses.

Understanding cash flow is crucial for the sound financial management of meagre money. To summarise, a budget plan sets out which sources of income fall into which period; the reality is that money does not always change hands simultaneously as a transaction; a cash flow forecast will map when the money changes hands. It shows how much money you will spend and receive, broken down into monthly amounts and the balance you expect each month. Its role is to help you plan your expenditure so that bills can be paid on time, and you can see the impact of these timings on the overall cash position.

Cash flow forecast

The cash flow forecast is an essential financial and project management tool; for example, although the budget might show a business is viable (money in is more significant than money out each year), if you receive a grant or loan late, you may not be able to pay your staff.

This could lead you to shut down. It is essential to look at the timing of money going in and out is vital. When you apply for cash, ask funders and investors how they plan to release funding to successful applicants (e.g., total payment upfront, quarterly payments, payment upon completion of work or meeting targets, etc.).

Cash flow forecasts can be used to decide things like when to take preventative action, understand what would happen if income or expenditure was higher/lower in each month, and if specific spending could be paid earlier or later or in instalments to manage “money in” and “money out”.

Getting paid on time

We want to give you some practical tips for getting paid on time:

Submit an invoice as soon as your work is done.

Make sure you have clear payment terms and conditions on an invoice or in an email that confirms the work to be done – e.g., the invoice must be paid within ten days.

Wherever possible, get an upfront payment for part of the overall cost of the work.

Pick up the phone and talk to your customers when things are not going well, as it is easy to be misunderstood in e-mail communications.

Be polite and friendly - remember people buy from people. This is especially important if you are likely to be working with the individual or business again.

Useful links

Crowdfunding

www.indiegogo.com

www.kickstarter.com

www.startnext.com

www.wemakeit.com

www.companisto.com

Microcredit



Click here to find a list of microfinance institutes in Europe:

[European microfinance](#)



Congratulations!

You finished Module 8. You are now able to take a quiz on the platform to test your knowledge and apply for a certificate with ECQA.

Reference List

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List of Figures

Figure 1: Budget	0
Figure 2: First estimation of costs	7
Figure 3: Source Quickbooks	12
Figure 4: FreshBooks Logo	14
Figure 5: Financing	16