Sources of capital

Business

Sources Of Capital For Profit And Not-For Profit Organizations Sources Of Capital For Profit And Not-For Profit Organizations Introduction

There are various sources of finance through which both the For Profit and Not-For Profit (NFP) organizations can raise capital to finance their operational and profitability needs. Many of the sources of capital for both the organizations overlap and some of them are strictly for either one of the organization type.

Body

Traditionally, the methods through which NFPs used to raise capital only included gifts as well as donations. Gifts and donations are funds that individuals as well as organizations provide to NFPs through appeals made by NFPs during fundraising programs. Another way through which NFPs raise funds is Grant funding which includes the funds that are awarded to NFPs by the government sector or by organizations that are charitable in nature (Landskroner, 2002). For example World Health Organization may provide a local NGO located in Pakistan with funds for the eradication of poverty in deserving areas of Pakistan. Both For Profit and NFPs can even use Loan financing and equity capital to raise funds for business. Loan financing refers to the money that is borrowed by an organization from another financial organization such as the banks (Zelman, 2009). Equity finance is the capital that is raised by both the organizations by the sale of certain amount of shares of the organization to external investors. Trading or sale of assets is even means through which both kinds of organizations raise capital. Trading is the sale of goods and services in return for money and fixed assets are the assets such as land and furniture that may be sold by organizations to raise capital.

All these sources have finance have various pros as well as cons associated with them. The main advantage of raising funds through fundraising activities is that the money that is raised does not need to be returned and the organization does not need to provide an account of where and how it was spend. But the downside of this method is that holding fundraising programs is quite expensive. In case of grants, the money does not need to be returned but the not for profit organization has to provide an account of where and how the money was spent. The upside of loan financing is that ample amount of money can be raised at a very small period of time but the loan repayment makes the method expensive. In case of equity, there is an increase in partnership due to which the not for profit organization may lose its sight of working for the wellbeing of others. The problem with trading and sale of fixed assets is that there are certain tax conditions associated with this method of raising capital.

Conclusion

Previously NGOs used to only raise money through grant programs as well as fundraising events but now similar to the For Profit organizations, NGOs even raise capital through debt as well as equity financing and they even trade goods and services and they even raise capital through the sale of their fixed assets.

References

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