

FINANCIAL STRATEGY HANDBOOK

A **Financial Strategy** is a structured, long-term financial framework that defines how an organisation will obtain, allocate, manage and safeguard its resources in order to ensure sustainability, stability and alignment with its mission.

In a nonprofit context, a Financial Strategy does not aim at profit maximisation. Instead, it ensures that financial resources are used as tools to achieve the organisation's objectives while maintaining resilience, liquidity and continuity over time.

It establishes for example:

- The desired funding mix (restricted vs. unrestricted income)
- The acceptable level of donor dependency
- The reserve and liquidity targets
- The expenditure priorities
- The mechanisms for monitoring and adjustment

A Financial Strategy is therefore a governance instrument that complements strategic planning and guarantees financial continuity beyond individual mandates.

We truly hope this revised Handbook will prove useful to Treasurers and all ELSA Officers, helping to strengthen our projects, secure sustainable funding, and further our mission of creating a just world in which there is respect for human dignity and cultural diversity.

Do not hesitate to approach us at treasurer@elsa.org

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PART I – THEORY & IMPORTANCE

1. What is a Financial Strategy?

A Financial Strategy is a long-term financial plan, roadmap, and vision for the successful operation of an ELSA Group.

For a nonprofit association, the objective is not profitability. Money must be understood as a tool, not a goal.

ELSA's purpose is to contribute to legal education, foster mutual understanding and promote social responsibility among law students and young lawyers. In order to fulfil this mission effectively, ELSA Groups must be financially secure.

A Financial Strategy:

- Defines how resources are used and developed over time
- Ensures sustainability beyond one Board mandate
- Reduces structural risks
- Creates financial continuity
- Supports long-term strategic planning

It is a financial management tool complementary to the overall Strategic Plan of an ELSA Group.

2. Annual Budget vs Financial Strategy

Annual Budget	Financial Strategy
Covers one term	Covers 3–5 years
Operational focus	Structural focus
Treasurer-driven	Board-wide responsibility
Short-term balance	Long-term sustainability

Financial instability is rarely caused by lack of activity. It is usually caused by a lack of long-term planning.

PART II – STRUCTURE OF A FINANCIAL STRATEGY

A Financial Strategy should always answer three fundamental questions:

1. Where are we now?

Assessment of current financial position, risks and opportunities.

2. Where would we like to be?

Definition of measurable financial targets for 3–5 years.

This includes:

- Desired funding mix
- Donor dependency threshold
- Reserve level
- Core cost coverage

3. How do we get there?

Concrete actions required to achieve the defined targets.

This may include:

- Increasing unrestricted funds
- Financing core costs
- Building reserves
- Replacing and maintaining assets
- Establishing investment policies

PART III – THE FINANCIAL STRATEGY PROCESS

1. Evaluation

Where are we now?

This for any ELSA Group will be the cornerstone on which their financial success will be built on. It is a common fact that in order for one to get where he wants to be, first he must realize where he is. So during this first step of the Financial Strategy Process the ELSA Group regardless if it's a local or a National must evaluate its current state before setting its new goals for the upcoming years. During this introductory process the ELSA Group must do a deep dive in its financial history of the past couple of years in order to find patterns. Patterns that potentially cause its financial stability to be challenged, but not only negative patterns as its purpose is also to find positive patterns and financial moves that brought income to the group or even prevented loss. As a result the evaluation process is split into two separate parts, the evaluation of the current state and the one of past patterns.

Current Status: Crucial to understand is that when we say evaluation of the current state of the ELSA Group we do not mean exclusively the financial state but the general image of the group. Since all the activities and even the perception of the Group can have a significant outcome on its finances. At this point one should start with the financial holdings of his Group at the time. The above includes both money that's in a bank account but also cash and can also include, if such a thing exists, the sum of the money invested in any form. Other than the previously referred to this countdown must include all types of financial means. Secondly once you have the full image of your holdings you need to evaluate your Groups activity. The activity of your group includes any event that your group plans to do or is consistently doing for the past years, as an indicator that it will be repeated once more. Your ELSA group's activity is important for your strategy because it dictates both your future expenses but also your upcoming opportunities for income.

The two former steps can be considered standard for any Treasurer or Officers that handles an ELSA group's finances since they are pretty much what they do in order to make a yearly budget. However what differentiates the Long Term Financial Strategy Plan for a yearly budget is the need for the officer to see beyond his own term. That need is what should lead him to diving in the previous year to search for patterns.

Past Patterns: As previously stated the need to search a bit deeper in your local or National Groups history is what makes the Financial Strategy different than a simple one year financial plan. All our ELSA groups have and will continue to have recurring themes. From a simple budgeting fault that has been passed down transition to transition to a whole project as example an ELSA law School

(ELS) that has a long tradition of years taking place, so long that no group would even think of stopping organizing it even if financially it's the reason behind its instability. However, at the same time you might find a pattern that has helped your group keep itself active, a method that perhaps you can apply to the maximum during your new Financial Strategy.

So what should you look for? In similar fashion as for the current status you should look for both your financial plans and your group's activity. Once you have understood the line of growth that your ELSA Group has had over the past few years you can start predicting how it will continue to evolve over the next few years after your own term has passed. Obviously, you cannot calculate with complete accuracy the future, but you can for sure approach a logical median of your ELSA Groups path.

Some examples on how to evaluate means in practice

- Identify total current liquidity.
- Calculate how many months of operation can be covered without new income.
- Identify main income sources and their percentage.
- Identify recurring projects generating surplus or loss.

Advanced examples:

- Analyse funding mix (restricted vs unrestricted income).
- Calculate donor dependency ratio.
- Identify structural risk exposure.
- Conduct 3-year financial trend analysis.

2. Goal Setting

Where would we like to be?

At this point, just like in any other situation after the evaluation and realisation process comes the plan. The goal setting procedure is where you as a Treasurer or any ELSA Officer chooses the direction you and your Local or National Group will move towards over the coming years concerning financial matters.

2.1 Income Goals

- Define realistic income growth (e.g. 10–20% in 3 years).
- Ensure no single source exceeds 50% of income.
- Identify at least one additional income source.

Advanced goals:

- Define funding mix targets.
- Establish donor dependency threshold (e.g. max 35%).
- Introduce multi-year partnership agreements.
- Define grant acquisition targets.

2.2 Expense Goals

- Identify core operational costs.
- Ensure core costs are covered by stable income.
- Review recurring expenses annually.

Advanced goals:

- Conduct project profitability analysis.
- Introduce cost-efficiency ratios.
- Implement structured procurement procedures.
- Develop a replacement plan for fixed assets.

2.3 Reserve Goals

- Maintain a reserve covering 3–4 months of operations.
- Allocate part of annual surplus to reserves.

Advanced goals:

- Define reserve target as % of annual expenditure.
- Introduce formal reserve policy.
- Establish a capitalisation mechanism (5–10% annually).

3. Execution

(How do we get there?)

Execution transforms strategy into measurable action.

3.1 Income Strategy

- Develop partnership outreach plans.
- Maintain a grant calendar.
- Adjust event fees where necessary.

Advanced points:

- Develop structured sponsorship tiers.
- Introduce investment policy (low-risk, ethical) based on the Investment Statute.
- Diversify income across Areas.
- Establish long-term partner retention strategy.

3.2 Cash Flow & Budgetary Control

- Prepare annual cash flow projection.
- Monitor event budgets.
- Avoid commitments without liquidity verification.

Advanced points:

- Establish a minimum liquidity ratio.
- Conduct quarterly financial performance review.
- Introduce structured budget control per project.
- Analyse financial reports to adjust short-term strategy.

4. Monitoring & Adjustment

(How do we implement this Strategy? How to work in continuity?)

A Financial Strategy must not remain static.

It should include:

- Annual review
- Mid-term assessment
- Adjustment mechanism
- Present annual progress report
- Compare targets with actual results

Advanced monitoring:

- Monitor:
 - Reserve ratio
 - Donor dependency
 - Liquidity coverage
 - Project profitability
- Revise strategy if structural financial changes occur.

PART IV – COMPOSITION OF A FINANCIAL STRATEGY

A Financial Strategy may be structured in three stages:

1. Implementation
How the strategy will be maintained and reviewed.
2. Focus
The fundraising and expenditure priorities.
3. Execution
The technical specification of ratios, targets and actions.

This ensures clarity between vision and technical application.

Ensure that the transition includes dedicated sections addressing the Financial Strategy, so that the incoming Board fully understands its objectives, targets, ongoing commitments and monitoring mechanisms.

When drafting or revising your Financial Strategy, it is strongly advised to:

- Discuss the Financial Strategy with the entire Board, ensuring that financial planning is a collective responsibility and aligned with the overall strategic direction that you want to pursue.
- Consult previous Treasurers of your Group, as their experience and knowledge of past financial years can provide valuable insight and prevent recurring mistakes.
- Seek guidance from the Treasurer or the person in charge of Finance within the International Board of ELSA, in order to analyse your strategy together, receive feedback and ensure alignment with good standards and best practices.

MODEL TEMPLATE

This template is just an example that is not mandatory to follow. You can add, delete and modify elements from it.

THE FINANCIAL STRATEGY OF ELSA [GROUP NAME]

Year X – Year Y

1. Evaluation Summary

(Where are we now?)

1.1 Current Liquidity

(amount to put if this document is not published)

€ _____

(Include: bank balance, cash, short-term receivables, invested funds.)

1.2 Reserve Coverage

(amount to put if this document is not published)

_____ months of operational expenditure

(Calculate: Current Reserve ÷ Average Monthly Core Costs)

1.3 Main Income Sources (last 3 years average)

Source	% of Total Income	Stability (High/Medium/Low)	Level
Partnerships	_____ %	_____	
Grants	_____ %	_____	
Membership Fees	_____ %	_____	
Project Revenue	_____ %	_____	
Other	_____ %	_____	

(Guiding question: Is any single source above 40–50%?)

1.4 Funding Mix

Restricted Income: _____ %

Unrestricted Income: _____ %

(Guiding question: Can core costs be covered by unrestricted income?)

1.5 Structural Risks Identified

- _____
- _____
- _____

(Examples: high donor dependency, recurring project loss, low liquidity, unstable grants.)

1.6 Key Financial Strengths

- _____
- _____

(Examples: diversified partnerships, strong flagship surplus, stable grants.)

2. Financial Targets

(Where do we want to be in 3–5 years?)

2.1 Income Targets

- Target total income growth: _____%
- Maximum donor dependency: _____%
- Target funding mix (restricted/unrestricted): _____ / _____
- New income sources to develop: _____

(Guiding question: What is realistic based on past trend?)

2.2 Expense Targets

- Core costs fully covered by: _____
- Target fixed cost reduction: _____%
- Projects to financially restructure: _____

(Guiding question: Are any activities structurally loss-making?)

2.3 Reserve Targets

- Minimum reserve level: _____ months of operations
- Long-term reserve target: _____% of annual expenditure
- Annual capitalisation: _____% of surplus

(Guiding question: How many months could we operate with zero income?)

3. Income Strategy

(How do we get there?)

3.1 Partnerships

Objective: Increase partnership income by ____% within ____ years.

ELSA [Group] shall:

- Diversify partnership portfolio (no partner above ____%).
- Develop a structured outreach plan (number of contacts per year: ____).
- Prioritise long-term agreements over one-off sponsorships.
- Introduce in-kind partnerships to reduce operational costs.

(Optional advanced question: Can we introduce sponsorship tiers?)

3.2 Grants

Objective: Grants represent at least ____% of total income.

ELSA [Group] shall:

- Apply to at least ____ (structural) grants per year.
- Maintain an annual grants calendar.
- Ensure knowledge transfer during transition.

(Advanced: Identify EU, national or foundation-level grant opportunities.)

3.3 Project Revenue

Objective: No recurring flagship project generates structural loss.

ELSA [Group] shall:

- Conduct cost-benefit analysis for each recurring project.
- Adjust participation fees when necessary.
- Introduce financial viability check before project approval.

(Guiding question: Are we organising projects for prestige or sustainability?)

3.4 Investments

- Maximum ____% of available funds may be invested.
- Minimum liquidity threshold: ____ months of expenses.
- Only low-risk and ethical instruments permitted.

(Advanced: Is an Investment Statute needed in your NG/LG? Look the investment Statute of ELSA International if it's in vigor)

4. Membership Fee Policy

ELSA [Group] shall:

- Link Membership Fee to tangible operational costs.
- Review fee structure every ____ years.
- Ensure affordability while maintaining sustainability.

(Guiding question: Is the membership fee symbolic or structural?)

5. Expense Policy

5.1 Core Costs

Core operational costs must be covered by stable and predictable income sources.

Core costs include:

- _____
- _____
- _____

(Guiding question: Could we survive one year if a major partner leaves?)

5.2 Cost Efficiency

ELSA [Group] shall:

- Reduce fixed costs by ____%.
- Expand pro bono and in-house partnerships.
- Avoid long-term commitments without liquidity analysis.
- Conduct annual review of service providers.

(Guiding question: how do we achieve these goals?)

6. Cash Flow & Liquidity Policy

- Monthly cash flow overview prepared by the Treasurer.
- No major payment commitment without liquidity check.
- Emergency liquidity buffer: _____ months.

(Guiding question: Do we experience seasonal liquidity stress?)

7. Reserve Policy

Objective: Maintain minimum reserve equal to ____ months of operational expenditure.

ELSA [Group] shall:

- Capitalise ____% of annual surplus.
- Refrain from using reserves for ordinary expenses.
- Use reserves only in case of:
 - Structural deficit
 - Extraordinary unforeseen expense
 - Cash flow emergency

(Advanced: Should reserves be partly invested?)

8. Professionalisation

ELSA [Group] shall:

- Maintain transparent accounting practices.
- Prepare annual financial performance analysis.
- Seek professional accounting advice if financially viable.
- Invest in secure IT and financial systems.

(Guiding question: Are financial processes documented and transferable? Can you outsource accounting?)

9. Monitoring & Review

The Treasurer shall:

- Present annual Financial Strategy progress report.
- Update reserve ratio and donor dependency annually.
- Conduct mid-term review of targets.
- Propose adjustments if financial conditions change significantly.

To monitor:

- Reserve ratio
- Donor dependency %
- Liquidity coverage ratio
- Core cost coverage ratio
- Project profitability ratio