Generating Income through Self-Financing

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Self-Financing - the Poor Relation

The International Fund-raising Group (as was) went through a lot of soul searching in 1996 before it finally agreed on its present title of "The Resource Alliance". Part of the problem was that most people concerned with the organization were indeed fund-raisers and proud of it. They saw no reason to dilute the message. Many organizations that specialize in the process of financing non-profit and charitable activities have the word "fund-raising" in their title (e.g. The Fund-Raising School of the University of Atlanta, the Association of Fund-raising Professionals). Fund-raising has dominated the world of CSO financing both conceptually and quantitatively for a very long time. It is therefore important to make it very clear that we are talking about something different in this chapter.

Fund-raising is based on the concept that disposable income exists somewhere out there, and that it is possible and valuable to influence people and organizations to give some of their disposable income to the good causes that the fund-raiser represents. The disposable income may come from individual's great wealth, (or alternatively from many individuals' pittances), from organizations professionally organized to disburse money, from governments, from businesses who can see some advantage to themselves in thus giving, and from a variety of other individuals or organizations who occupy cracks between these large categories. CSOs try to access other peoples' or organizations' wealth by a variety of creative techniques which educate, amuse, entertain, and in some cases simply offer an opportunity that people have been looking for.

The important corollaries of fund-raising are fiscal responsibility, trust, accountability, public education, and constantly renewed innovation in techniques and ideas – both to compete with other fund-raisers, and to tickle the public's jaded palate. The governance of fund-raising involves transparency, a good understanding of what the donors will tolerate as acceptable levels for expenditure with the raised funds, and a rule of law which is prepared to address issues like "breach of trust" or "improper disclosure"

Generating income through self-financing is very different. Here the potential fund-raiser says "I am not interested in trying to persuade you to give me of your wealth, I am interested in creating wealth for my organization by asking you to buy some goods or service that my organization produces". It is based on the entrepreneurial approach that opportunities to create income exist if you look for them, and there is no reason why such opportunities should be monopolized by those who work for profit making entities. This approach tends to attract people who are put off by the atmosphere of "begging" that often taints fund-raising, and who want a relationship of equality between those working for CSOs and those who support their work.

Income acquired from self-financing may come from business ideas that reflect the main work of the organization, or from products and services in completely different fields. The enterprise may sell goods and services to a variety of clients including, but not limited to the organizations clients, other local people, government, the business world, or foreign markets. The important corollaries are business acumen, entrepreneurial risk taking, innovative market research, and sensitivity to public (and government) opinion in respect of the CSOs' business activities. The governance issues are concerned with making sure that the income generation supports the CSOs' mission (and not the other way round) and nimble foot work in dealing with the complicated legal and fiscal position of a non-profit which tries to make a profit (see later for this red herring)

There are, I think, two reasons that so few CSOs in the South presently use income generation and self-financing techniques:

- The first is that traditionally and culturally most financing of non-government and charitable activities came from fund-raising from local supporters. Such local fund-raising was often associated with religious or charitable causes, rather than social development or advocacy – which are the purpose of increasingly large numbers of southern CSOs in the 21st century.
- The second is that since the 1970s very large numbers of funding agencies from the north have put up their shingles in the South and say "Come and ask us for money – we are in business to support CSOs. You don't need to raise anything yourself – come and ask us to be your funder"[1]

A third reason, on reflection, is that few northern donors have even conceptualized income generation and self-financing as something which they should encourage, let alone support. As we shall see later in this chapter, many actively discourage it, as likely to negatively impact on a CSO's mission. There is little donor support for the policy changes that governments of the south need to adopt to create a supportive environment for self-financing of CSOs – indeed the IMF encourages Departments of Taxation to tax anything that moves, and warns them about CSOs that may open cracks which subsequently become loopholes[2].

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[1] In every country which has moved from a totalitarian to a democratic regime, northern funding agencies have arrived and aggressively marketed themselves to the (sometimes) very limited environment of civil society organizations. Not surprisingly, within a short time, there are lots of CSOs applying for their funds.

[2] The World Bank actively encourages and supports NGOs, and the enabling environment for NGOs, but has never dealt with the problem that other parts of their own organization, plus the IMF, discourage any exceptions to comprehensive tax collection – and are unsympathetic to CSO special pleas (conversations with The International Centre for Non-Profit law)

It is surprising, in an era in which the market has become so elevated an institution, that more donors have not been persuaded to encourage CSOs to become market oriented.

Profits for Non-Profits - the Red Herring

Without doubt, one of the conceptual stumbling blocks with income generation and self-financing is that we are often talking about the seeming contradiction of non-profits trying to make profits. To my mind it is astonishing that this continues to cause a problem since it is only a “seeming” and not a real contradiction. Unacceptable behaviour by some CSOs who only generate income for the staff to “eat” (as the Kenyans say) has prejudiced many peoples perception of CSO income generation. Part of the problem comes from confusion about the large number of different players in the development business in the south, some of whom are non-profit, some are for-profit, and some are one masquerading as the other. But because this question continues to be a stumbling block for CSO people, as well as governments and donors, it is necessary to unpack it and explain the inconsistencies.

A civil society charitable or development organization which has been formed for a social purpose – either to benefit its members (like a village association or a cooperative or a union) or to benefit the public (or identified groups of the public like the disabled, or the illiterate) has both similarities and differences from for profit enterprises. One the one hand the CSO is not owned by anyone – under most legal systems it is held in trust by an elected or appointed voluntary Board or Trust or Committee, and on the other hand it has income and expenditure just like a business.

A business which has been formed for a private or institutional purpose of generating profits for owners (individuals or shareholders) has a different kind of income and expenditure, however. Once its income has covered its costs, then what is left, calculated annually, is profit, and this profit is legitimately divided and distributed amongst its owners. Individuals can own businesses, as can other businesses. Owners can also be staff of the business and can pay themselves salaries for the work they do, and decide what the rate of such salaries should be. Profit (if they make any) is income over and above their salaries.

Once a civil society charitable or development organization covers its costs, what is left over is not <u>profit</u> since it is not available to be distributed to “owners”. It is simply income that is kept and ploughed back into the ongoing work of the CSO. The staff of the CSO may indeed get salaries (and they become part of the costs of the CSO, which, in a well governed organization, are clearly stated and known). An excess of income over expenditure does not result in a higher salary for the CSO staff, nor does it result in bonuses being paid to the CSO’s staff.

This is an important difference between for profit and non-profit organizations, and needs to be regularly clarified and underpinned by policies and regulations.

Those who "masquerade"[3] muddy the water for the rest. If a for-profit organization tries to get non-profit status in order to import goods tax-free, for instance, it should be investigated as to whether it is owned by an individual(s) or organization, whether it has a social purpose, as opposed to the perfectly acceptable purpose of creating profit. If it is not, the distinction should be clearly made between those who are entitled and those who are not entitled to tax free privileges. To complicate the picture, there are also perfectly admirable for-profit organizations which compete successfully (particularly in terms of quality) with CSOs in such fields as water-drilling, micro-finance, building, management training.

The reason why CSOs with a social mission are often allowed tax breaks or other advantages by governments is in recognition that they are helping government to deal with problems that the government would otherwise have to deal with itself. In return for this CSOs are usually registered under different regulations which allow for different governance systems, one of which distinguishes them from for-profit organizations. Unscrupulous for profit businesses try to avail themselves of these CSO specific advantages lead government officials to be unclear about the CSO world, and frequently suspicious. Mari Alkatiri, Prime Minister of East Timor, the most recently created country in the world, for instance, referred disparagingly to "lucrative NGOs" in a speech to donors in Dili in December 02.

Many tax departments of governments in the South do not seem to understand the points made above (or at least claim not to do so in order to avoid the cracks / loopholes problem mentioned above). "How can a non-profit make a profit?" they cry. "This must be an attempt to avoid taxes". The problem is posed incorrectly – it should not be "Is this CSO making a profit?", but "Is this CSO distributing income to share-holders or not?". There should be no confusion between a business making a profit and distributing that profit to its owners, and a CSO that uses any income over its expenditure (and expenditure includes salaries of staff) to advance the mission of the organization[4].

A further and more complicated issue is whether CSO owned businesses should pay tax. The consensus amongst most observers of this field is that they should because otherwise there is an unfair competition between them and other for-profit businesses which may be operating in the same field.

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[3] This refers to the same group called "Pretenders" by Alan Fowler in his essential book "Striking a Balance". This book provides an exhaustive list of the possible masqueraders.

[4] More information on this whole question can be found in "A Handook on the Good Practices for Laws relating to Non-Governmental Organisations" by Leon Irish. World Bank and International Centre for Not-for profit Law (ICNL), 1997. (available on ICNL website <www.icnl.org>)

Government officials see that very many CSOs in the South derive their income from foreign funding. In many cases they are jealous, feeling that the CSOs are competing with them for donor funding. It would seem, on the face of it, that governments would welcome CSOs that do not compete with them, but which create income for themselves and are self-financing. In very many countries, however, the laws are that govern CSOs' ability to finance themselves through enterprises are unhelpful and restrictive[5]. In turn very many CSO workers feel that there is something wrong about a non-profit running a business to earn money, and shy away from the idea. The question should be posed in this way: "Would you rather be dependent on funding from a foreign donor or be supported from income that you have generated yourself?" There are important aspects of independence, self-respect, and dependency involved here.

Amateur Night or Social Entrepreneurs?

The worlds of business and non-profit social development organizations rarely overlap, and people from one rarely inhabit the other – to the detriment of both, in my opinion. Most people in the CSO world come from a background in academia, religious organizations, civil service, trade unions, occasionally from the professions – rarely from the world of small (or large) businesses. A figure like Abed of BRAC in Bangladesh – founder of possibly the biggest CSO in the world with a huge portfolio of wholly owned businesses that support its work – is rare. He held a senior position in Philips Electrical before the Bangladesh War of Independence ushered him into a second career in the world of non-profits.[6]

Because of their backgrounds many CSO people do not feel comfortable with the idea of a business – producing goods or services that others will want to buy, and from whose sales they can expand the work of the CSO. Some feel ideologically opposed, some feel incompetent and worried that that they will lose their organization's mission, some feel that they will not be supported if they invest in such an idea, and some feel the risks outweigh the possible benefits. Let us look at each of these.

Ideology

In countries where most businesses succeed by naked exploitation it is not surprising that many CSO people (who are distinguished by having a social mission) will feel uncomfortable about wanting to join such a company. They claim that they see companies paying below minimum level wages and supplying no or few benefits, fiddling their taxes, damaging the environment, abusing their workers, using unsafe methods and equipment, and they feel that they do not want to associated with such practices. If there are few examples in a country of

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[5] In Indonesia there is a top limit on the amount that can be financed this way: in India only activities linked to the CSO's mission are allowed to be financed this way.

[6] A visit to BRAC's web site (www.brac.org) will illustrate the range of businesses owned and run by BRAC, all of which pay tax to the government as businesses.

capitalist, profit making organizations that are run by moral and responsible people, CSO people will think twice about being the pioneers to start such a risky venture..

Prejudice and mis-information are, however, often at work here. CSO people do not attend chambers of commerce, do not know much about businesses, do not know the difficult decisions that business people have to make to keep paying their workers, do not understand the benefits that employment and local purchasing bring to a community. They are often scornful about business people without knowing enough about the kinds of work they do. They are also often ignorant also about the strong social consciences that many business people have and their desire to use their position to benefit other people.

It is often assumed that “we are all capitalists now”, but many of the politically aware CSOs do not join this testament. We should not assume that the “Washington consensus” and the “supremacy of the market” are doctrines that resonate with many CSO people. CSO people, particularly those in the social activist and advocacy end of the spectrum, are often of a leftist persuasion, and will not easily see that the use of market forces for a social end is ideologically correct. They will need to be convinced that starting an enterprise is part of the solution, not part of the problem.

Mission deformation

One of the more helpful aspects of international funding for southern CSOs has been the northern donors insistence on vision and mission statements as a management instrument to be applied by organizations that they are prepared to fund. Many CSOs in the South now have Mission Statements which, to a greater or lesser degree, clarify the core work of the organization. Often the production of this Mission Statement has been a painful process for CSOs as they have realized the value of, but have felt the pain of, divesting themselves of marginal and ineffective activities.

If such CSO leaders are now faced with thinking about creating businesses to generate income for their organization, they see, quite logically, that this is going to have a powerful impact on their mission. They realize that devoting a substantial part of the work of the organization to making money in one way or another, will have a substantial impact on their mission. This is correct – it will do so and no-one should embark on a self-financing strategy without re-working a strategic plan for their whole organization. The more the enterprise or business departs from the mission of the CSO the more troubled the CEO will become, for it is venturing into new territory.

If a literacy or a public policy analysis CSO decides that it will try to finance itself by selling by selling the products of its work i.e. the books it has written, this will not be considered a great step. If a community development CSO considers the possibility of running a small for profit farm to finance its work, it is not such a stretch – and it has the advantage of proving the worth of the advice it gives. Possibly an organization working with HIV/AIDS sufferers would not feel too challenged by selling condoms. But an organization working with orphans which branches out into novel activities – like starting a restaurant, or a home for battered women running an art gallery – presents the CEO with possible, through difficult choices.

Many CEOs who may have accepted the idea conceptually, feel helpless to actually implement the idea, and look around for technical advice. Luckily a new breed of non-profit business advisers has started to appear. A surprisingly large amount of work has been done in the environmental field where environmental CSOs have found ways to make money to (for instance) operate national parks, save endangered species and locations, or research local ecologies. The leader has been The Nature Conservancy which has systematically taught its branches to think entrepreneurially, and backed up such training with manuals (see under "Resources" at the end of the chapter). Another organization that has provided its members with training in self-financing is the International Red Cross, while a third organization, NeSST (Non-profits Enterprise and Self-Sustainability Team), has offered itself as a management consultancy group – providing skills to help CSOs come to terms with enterprise creation possibilities.

If a CSO does decide to move in the self-financing direction, it may not get consensus amongst its staff to do so. The long experienced child care worker may not, for instance, take kindly to being asked to sell her expertise as a consultant to make money for the organization: the social activist may not want to run a training center for the same reason, and none of them may be interested in producing , for instance, greetings cards – even though they may well be convinced that it is a profitable idea for the long term sustainability of the organization.

One of the best ideas is to try and separate the mission directed part of the organization from the fund generation side. Recognizing that the same people may not be well suited to both kinds of activities, and also recognizing that the typical CSO staffer is unlikely to be good at business, it makes a lot of sense for CSOs to try and set up their income generation as a separate enterprise with its own staff and its own operating procedures. The important thing is that the profits that it is hoped will come from the enterprise are covenanted to the CSO, and used to support the CSO's mission.

CSO's leaders and their staff can veer from extreme to extreme in considering starting enterprises – both extremes reflecting their lack of experience with business. On the one hand they may be very pessimistic that whatever they produce will find a market at a price and in quantities sufficient to make a profit for the organization. On the other hand they may have a wildly optimistic idea of the income that they will receive – feeling that all their financing worries will be over once the enterprise is under way.

Risk

If it was easy to run a profitable enterprise, many more people would be doing so. CSOs start with the disadvantage that they are not likely to be business minded, but they also have the advantage that people may be inclined to buy their product or service because by doing so they are supporting the CSO. For some people this argues for a close link between mission and enterprise – an agricultural CSO offers agricultural produce or services, a health CSO offers services in the pharmaceutical field – so that people will be reminded of the CSO's work when purchasing the product or service. Others feel that there is little money to be made that way, and that it may require more financial and business expertise than they have. They would rather do something simple but profitable – like renting real estate.

Other CSO leaders are apprehensive about the big jump, and equally big risk in moving from dependence on donor support to efforts at sustainable self-reliance. They would prefer not to put all their investment of time, energy, staff, and capital into an enterprise that could fail, leaving them very vulnerable, and probably unable to go back to their previous donors. There is no reason why a CSO should not have many financing options on the go at the same time – for instance a mixture of foreign donor funds, membership subscriptions, government contracts, and income from a self-generated enterprise. This will lessen the risk, and increase the comfort level for the CEO and Board.

What are the options?

To give us an idea of the range of self-financing options that are being considered let us look at the case of NESsT's experience[7]. It offers capacity building services for CSOs interested in self-financing: this can mean a number of hours of consulting time, time spent helping CSOs think through their business plans, as well as a certain amount of venture capital. NESsT works in Central Europe and Latin America – and a list of its recent awards can illustrate the range of activities that contemporary CSOs are considering. From their NESsT News of July/August 2002, we see the following:

In Hungary:

- *Bliss Foundation plans to sell alternative communication devices for physically disabled youth*
- *Afrika-Aszia Forum, a human rights group, seeks to rent African costumes and instruments, cater African cuisine, and sell African art*
- *NIOK, a non-profit support center, plans to provide web services to non-profits*

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[7] NESsT is at <www.nesst.org>

- *Partners Hungary aims to earn income from its conflict resolution training*
- *Open garden, which promotes community agricultural production, is expanding a home delivery service for organic produce*

In Czech Republic

- *Transitions Online which works to strengthen journalism in central Europe, seeks to increase feesfrom its online articles and news data base, and from book and CD sales*
- *Tamizdat which promotes alternative culture and progressive thought in Central and eastern Europe, seeks to increase revenue from online sales of music CDs*

In Slovakia

- *Vydra, a cultural, natural and cultural heritage organization aims to run a buffet and cultural activities for tourists at an environmental museum*

If we try and systematize NESsT's and other organisations' experience and analyze the different kinds of enterprises in which CSOs can be involved, we find that they can be broken into five basic types:

- Enterprises which capitalize on the CSO's core business
- Enterprises which capitalize on the CSO's existing capital
- Opportunistic enterprises that fit the CSO's human capital
- Purely commercial investments
- Collaborative ventures with existing businesses

Enterprises which capitalize on the CSO's core business

Community development organizations, or organizations that work with specialized groups within the community (like drug addicts, or the disabled, or victims of natural disasters) each have the opportunity to think what aspects of their work could be turned into a profit making venture – and be useful to the CSO's target group at the same time. Thus community development organizations working with farmers might sell farm produce, disabled people might construct appliances and equipment for the disabled like calipers and wheelchairs, refugees from floods or volcanic explosions might make and sell handicrafts – both utilitarian and decorative. In each case the enterprise is closely linked to the work of the CSO, sometimes using existing skills of the target group, sometimes requiring training or re-training.

One sub-set of this is the idea of "fees for service" whereby CSOs charge for services that they had been previously been providing free. This subject is controversial since it has so frequently been conceptually linked to the World Bank's Structural Adjustment Programmes (SAPs). In so many countries of the world people are required to pay for what were previously free education and health facilities – sometimes with the result that poor people cannot avail themselves of these facilities and go without. Where there is a strong possibility that people can pay (and where there is a weak tax base) this makes more sense than an insupportable and unsustainable welfare state, but there needs to be provision made for those who cannot pay, and this can best be handled by cross-subsidies. CSOs can sustain themselves by selling their services to their clients, but, since CSOs are often working with the poorest, they need to consider their special position. The position of PROSALUD in Bolivia is instructive.

PROSALUD – self-financing health services
PROSALUD's objective is to function without outside support, recovering its costs from the sale of its health services and products. In the health sector, recovering costs by charging fees for health services delivered to low income families is often considered impossible. Charging fees that are high enough to cover the costs of services appears to discriminate against the very poor, who live on the edge of subsistence and often have no money on hand to pay for services or goods of any kind.
The conventional wisdom, however, seems to be belied by the PROSALUD experience in Bolivia. PROSALUD already has a growing system of of health facilities in operation that are self-financing through the fees that it charges, Clients are predominantly low-income families. Services include free preventative health care And child survival operations. Curative services are provided free of charge to families that cannot pay (these are between 8-13% of PROSALUDS patients). PROSALUD has conclusively demonstrated the feasibility of self-financed primary health care services, even in a country as poor as Bolivia

Some products and services may be more saleable than others: credit seems to be a service that people are always prepared to pay for through interest rates and service fees, providing the rates are low and the service efficient, as we can see from the success of the Grameen Bank and its clones set up around the world under the Grameen Trust. Successful borrowers start their own businesses with the loans and this provides them with enough income to pay back their credit. On the other hand it is more difficult to see a business opportunity linked to, for instance, a CSOs work with women who suffer from domestic violence. See, however, the work of HOPE in Zambia. What we learn from these examples is the old business principle of segmenting the market, and the new non-profit business principle of cross-subsidies to deal with the problems of the poorest.

HOPE makes money for itself from HIV/AIDS patients
HOPE worked to provide free AIDS testing and counseling to the public in Zambia, and racked its brain how to be self-financing. It realized that there was a premium set by Zambian people on confidentiality and avoiding shame and that some people did not want to be seen coming to their free down town clinic. It therefore offered a two tier service in two different locations – their usual free clinic open to the public, and a more confidential service in another more secluded site – for which people paid

Enterprises which capitalize on the CSO's existing capital

Here we are asking the CSO to look at itself from the point of view of a potential investor and consider what amongst its human, physical, environmental, and relational capital could be turned into a profit making enterprise.

Human Capital

Does the CSO have a stock of skills that others might be prepared to pay for, separately from the practice of those skills for the mission of the organization? In many cases the answer is that the CSO has skills that others in the development community value, and might be persuaded to pay for. These could derive from their experience – of their core business, or their administration and financial management, or promotional and presentational skills. In many cases there may be staff of the organization who have skills only a part of which are used by the CSO – particularly in the IT field.

Physical Capital

Does the CSO have a stock of physical plant that could develop a secondary function which would be income earning, separately from the use of that plant for the CSO's main business. This could be their equipment (vehicles, computers, photocopiers) or their buildings and land. Is there spare capacity in any of these fields which it would make sense to turn to another use for people prepared to pay?

Environmental Capital

Does the CSO exist in a place where its position gives it a saleable commodity? Could the CSO sell its experience and expertise of a particular place to those potentially interested in it. This could be to do with something singular in their location – specific features of deprivation, specific ecological, environmental or cultural interests, specific natural beauties. Is there a market for things that the CSO workers see every day, but had not previously seen through others eyes?

> **Making money from your physical location**
> Some NGOs, like Yayasan Tengko Sitoru in Indonesia happen to be situated in a an area of great cultural interest – Tana Toraja in Sulawezi. They make money from organizing eco-tourism, and bring income to the local people as well.
> Organisations in Philippines and Thailand organize tours for "alternative" tourists to areas of great deprivation like Bangkok's rubbish mountain, or landless sugar workers in Negros.
> Still other CSOs make money from teaching the local language to foreigners who plan to work there

Relational Capital

Does the CSO know a lot of people, or know a few important people well, or has it developed a lot of knowledge about the actors in a particular field? Is this stock of knowledge something that others are prepared to pay for as a go-between, as a writer of directories, as an interpreter.

> **INSIST documents its work and sells the books**
> INSIST is a management and advocacy training organization in Yogyakarta, Indonesia. It documents the experiences of organizations that pass through its courses, and publishes successful books based on both its training course manuals, and its accumulated case studies

Opportunistic Enterprises that fit the CSO's management ability

An entrepreneurial scan of the CSO's existing human, physical, environmental, and relational capital may not turn up too many good ideas, and the CSO then needs to look at income generation opportunities which fit the competence of their staff and their available time. We said earlier in this chapter that CSO staff are notoriously poor in business skills: it is therefore not sensible for CSOs to consider opening a retail business in a competitive world like grocery supermarkets. It is also not sensible for CSOs to enter a commercial field in which their bona fides will be questioned – such as a bar or a night club. It could make sense to find a commercially simple activity like renting property, particularly if the property rented already belongs to the CSO, like the Red Cross in Zambia

> **Zambian Red Cross – successful landlords**
> In 1991 the Zambian Red Cross asked the Finnish Red cross for the funds to build an office block both for themselves, and with space to rent out. When the building was finished in 1992 the top floor was rented to the World Bank, and this together with the rental of 6 flats that it owns, cover 87% of their costs

Purely local and opportunistic ideas can come from a fashion, an event, a change in population composition, a new industry - and an entrepreneurially minded, although commercially inexperienced, CSO may find room to make money for its work from such localized and happenstance events.

Another possibility is serendipity – whereby someone sympathetic to the work of the CSO gives them, unexpectedly some capital that could be the basis for an enterprise – a building, land, some equipment, a stock of materials, a small but running business.

The important features of enterprises that capitalize on a CSO's core business are all to do with a business and entrepreneurial culture – features that are standard for practicing business people, but need to be learned behaviour for most CSOs. They comprise:

- An entrepreneurial imagination which can think of original and creative enterprise ideas
- Close attention to customers and their needs which will allow the CSO to change and modify products and services as customer preferences change
- Good costing to make sure that all costs are covered and a surplus is being made to increase the income of the CSO
- Attention to business principles like adequate working capital which allows the business to build up sales before its reserves run out.

There are two further kinds of self-financing possibilities mentioned above that depend upon the CSO already having, or having access to, business acumen:

Purely commercial investments

This section is probably applicable to only a few CSOs, but if the CSO is able to acquire the services of an experienced business person, and has access to capital, then making investment decisions for the CSO will be no different than making investment decisions for a business. In such cases the business side of the CSO is completely separate from the core business of the CSO, with its own staff, its own operating principles and practice, and its only duty to hand over income to the CSO born from the profits of the enterprise. The best example of this is perhaps the work of the Aga Khan Foundation

The Sophistication of the Aga Khan Foundation
The Aga Khan Foundation involves venture capital investment units which fund start up businesses owned by the Foundation, and a large development network which funds social activities in the same countries. The businesses are funded with the expectation that a portion of the profits of those business will return to the development arm of the Foundation. "Serena Hotels" for instance, which are situated in countries in which it works, are a source of income to the development arm of the Foundation

Collaborative ventures with existing businesses

Existing businesses might well see a feature of a CSO's work that is attractive to them, and for which they are prepared to pay. The CSO will need to work out how much this will divert them from their core business – if at all – and how much income they can derive from it – and very fundamentally, whether they want to be seen by the public as being associated with this particular business. Many NGOs in Africa have been paid by companies to test and counsel for HIV/AIDS

NGOs working with African firms on HIV/AIDS issues
HIV/AIDS is a pandemic that is threatening the economic life of Southern Africa. The copper mines of Botswana, the diamond and gold mines of South Africa are losing workers at a phenomenal rate and reducing profits for shareholders considerably. Many such businesses pay CSOs to enter their workplaces and carry out safe sex education in an attempt to reduce the rate of transmission of the disease

What does it take to make a success of self-financing?

If we accept that the norm for most Southern CSOs is local fund-raising (in the case of religious and charitable activities) and northern donor transfers (in the case of development, human rights, and advocacy organizations), then we have to be clear that those opting for self-financing and income generation will be to some extent mavericks, and will not have a large body of experience to draw upon.

Commitment
In such a situation, one of the pre-requisites for making a success of self-financing is a commitment to doing so. The CSO must examine the alternatives, must think about issues like dependency, public reputation, the use and diversion of time from the core business of the CSO, the need to educate the public (and particular sub-groups of the public like government officials or business people) about the work of the CSO, and decide on the value of this approach.

The organization may also decide to hedge their bets and introduce income generation as one of a variety of financing strategies for their organization, but – having decided in full or in part to go with self-financing, the CSO must be prepared to stick with it, and ride out the risks that are a part of any business enterprise. Part of committment is also the commitment to educate potential supporters and sympathizers about the value of self-financing for CSOs – to be proselytizers on behalf of this approach to politicians, government officials, northern donors, and the general public.

Business Acumen
A second, and most important, pre-requisite which has been stated many times in this chapter, is to recognize that most CSOs are unused to and ill-prepared for work in the business field. Many CSOs who have a distaste for business try and disguise to themselves that they are involved in a business which has its own laws and norms, pretending that their enterprises are peripheral and can be handled by amateurs – and this results in stocks of unsellable embroidery, handicrafts which make losses, tiny profits, and wasted time by all.

CSOs need to be aware of their business deficiencies and be prepared to do something about this – which may be learning about business practices and principles themselves, using the services of consultants who specialize in their field – like NESsT, using the services of businesspeople who are willing to contribute their time and expertise voluntarily as their contribution to the CSO, or costing in the time of professionals into the business plan for the enterprise.

The business plan is the crux of the income generation/self-financing approach. It is a recognition that the CSO is serious, it is a document that can sell their enterprise idea to investors, it is a road map for their enterprise development, and it is a tool for monitoring whether the ideas come to fruition, and whether the CSO actually makes the income that was planned. Most CSOs are unable to make a business plan without considerable outside help.

Venture Capital

A third issue is the venture capital that will be needed for the enterprise to be started. Such venture capital may come from grants, loans, goods in kind, savings, and sweat equity. Let us look at each of these in turn:

Grants

Since so many northern donor organizations are enthusiastically extolling the virtues of civil society organizations, and funding so many and so varied CSOs, it should, in theory, be possible for CSOs to get venture capital for their self-financing businesses from northern donors. It does not often happen, however.

On the one hand, few CSOs make proposals for such funds to northern donors, being conditioned through three decades of northern funding to asking for operating and development costs as grants. On the other hand few donors have identified venture capital for non-profits as a line item in their budgets. Many donors will tell cautionary tales of failed attempts in the past, and emphasise the dangers of diverting CSOs from their core mission. They also stress CSOs inexperience in business as a reason not to fund venture capital. They could take the view that this is a challenge to be met, and one which can lead to the greater good of financial sustainability of CSOs, but they seem not to. One possibility is that the staff of donors who deal with CSOs also lack experience of how to analyze and respond to proposals based on business plans.

Another aspect of the possible mismatch between the proposals of self-financers and northern donors is that, increasingly, northern donors think in terms of projects which reflect the donors own strategic analysis of what needs to be done in a particular country. What we are dealing with in income generation is ways of sustainably financing a CSO to be able to do what it considers important in the country – not necessarily the same thing at all.

At the same time there are very likely different parts of the same donor organization which specialize in helping for profit micro and small enterprises, but the experience of such units is rarely made available to non-profits.

Northern foundations, so often the pioneers in development thinking and practice, are more likely to be sympathetic to the idea of providing venture capital in the form of grants, and they have christened a whole new sub-set of funding with the title of venture philanthropy.

Loans

These quickly break down into loans at market rates (which is how most for-profit businesses acquire their capital) and loans at soft or subsidized rates which is the field of a specialized group of credit providing organizations called INAISE (international Association of Investors in the Social Economy) who generally refer to themselves as social investors (in the USA "program related investors")

If you have a good business plan which can impress a bank manager, a CSO in theory should be able to attract credit with which it can start its own enterprise. A frequent problem is the banks need for collateral which either the CSO does not have, or which the Board or Trustees of the CSO are not prepared to provide because of the risk that the enterprise could fail, and then take the whole organization with it. RAFAD in Switzerland have faced this problem by linking local banks to Swiss banks and providing bank guarantees to Swiss banks, against which local banks can advance money to local CSOs.

What is Social Investment?

When a CSO has a project that it would like to implement which has a chance of being financially viable and produce an adequate return on capital invested, it is possible that it will go to a bank to try and get the finance required.

Unfortunately many CSO project ideas may well be viable, but may not be bankable given the existing rules and regulations of the banks, together with their conservatism for new ideas. CSOs need a source of investment finance that is flexible enough to meet their needs, interested in the social aspects of their work (rather than considering the optimal returns on capital) and prepared to deal with them. This is the field of social investment (known in the USA as "Programme Related Investment") - that is organisations which have set up funds to lend money to CSOs which prioritize social and environmental considerations. Such funding organisations broadly share the two following characteristics:

- they tend to serve social economy organisations and small or micro enterprises which have social or environmental objectives
- they finance sections of the population, projects, sectors, or regions which have been abandoned by the traditional banks or financial institutions.

The funds are not grants - they are social investment funds from organisations which want to support viable and socially responsible work, want to have their investment returned with interest, but who are not investing their money with the prime purpose of maximising their income from the interest to be earned. They are usually, therefore, satisfied with a below market rate of return on their investment.

Goods in Kind
As mentioned before, the reputation of the CSO may encourage well-wishers to give the organization not money, but some form of in-kind contribution that could be the start of a for profit enterprise – land, buildings, equipment, financial instruments.

Is self-financing a viable alternative to fund-raising?

The Big Picture

We need to look at the whole range of financing strategies for CSOs and see what part self-financing plays in the big picture. As can be seen from the typology below, self-financing through CSO enterprises in one of 8 different financing possibilities

Funds from Northern Governments
- directly as bilateral assistance
- indirectly as multi-lateral assistance
- via Northern NGOs
- via their own governments as bilateral assistance relayed to CSOs

Funds from Northern NGOs directly

Funds from the Market
- from existing businesses
- from NGO enterprises (including investments)

Funds from Citizens
- directly as gifts
- indirectly as support

The Judicious Mix

A wise CSO Board and Manager should look at the range of possibilities and decide which of these 8, or which possible combinations of these 8 is applicable to their CSO. Each will be relevant to different aspects of different CSOs in different environments and need to be teased out before deciding what combination is appropriate for the CSO. Richard Holloway's work in ….. suggests that the following positive and negative aspects need to be considered

Positive aspects to be considered

- Links to own society
- Control over the use of resources

- Variety of resources (thus reducing vulnerability)
- Ability to design own programs
- Commitment to sustainability
- (please add your own ideas)

Negative aspects to be considered

- Danger of distorting Mission
- Amount of work required
- The likely return on effort
- Distaste for certain partners (e.g. business or government)
- Difficulty of getting support for your particular cause.
- Lack of skills or experience in resource mobilization

The balance of positive and negative factors to be weighed up is far from fixed at any one moment in time, however. An alert and active CSO has to be opportunistic and see what existing and new possibilities there are – even though they had not thought of these originally. A change in tax law (for instance) might make it more attractive for businesses or individuals to support the work of CSO self-fiancing: a particular event might allow a CSO to capitalize on the interest generated by its work: a new indigenous foundation might be set up, or a foreign donor start a program of venture capital for CSOs. A business person with entrepreneurial ideas might join the Board and have many suggestions for income generation. One of the important possibilities will always be income generation for self-financing, and those interested in resource mobilization will always need to consider it.

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Resource Organisations

Aga Khan Foundation (NGO Enhancement Program)
Geneva,
Switzerland

Non-Profit Enterprise and Self Sustainability Team (NeSsT)
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Email: nesst@igc.apc.org
NESsT can provide trainers in this field.

The Philippines Business for Social Progress (PBSP)
3/F Magallanes cor. Real St.,
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PBSP has an international training programme (in English) which includes the subject of self-sustainability.

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