PDA

STRATEGIES TO STRENGTHEN NGO CAPACITY IN RESOURCE MOBILIZATION THROUGH BUSINESS ACTIVITIES

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Foreword

The work of non-governmental organizations (NGOs) – protecting the environment, helping the sick and needy, preserving arts and culture – is by nature "unprofitable." Traditionally, NGOs rely on the goodwill and generosity of others to cover the costs of their activities through grants and donations. Today, unfortunately, NGOs find that such traditional funding sources are often insufficient to meet growing needs and rising costs. In addition, restrictions imposed on many grants and donations, along with the uncertainty of these funds over time, make it difficult for NGOs to do long-term planning, improve their services or reach their full potential.

When the costs of an NGO's core activities exceed the inflow of grants and donations, it is forced to either reduce the quantity and/or quality of its work, or to find new sources of funds to cover the difference. Reaching out to new donors with innovative fund-raising approaches is usually the first step. Redesigning program activities to include cost-recovery components, whereby the beneficiaries or clients of the NGO pay part of program costs, is a second approach. A third alternative is for the NGO to "make money" through commercial ventures.

This UNAIDS Best Practice key material is directed at managers of national and international NGOs working on HIV/AIDS and other health and development issues. It is intended to increase their awareness of the opportunities, and possible problems, associated with alternative resource mobilization strategies, with a special focus on commercial activities. It is hoped that this will motivate NGO managers to determine and begin implementing the most appropriate resource-generating strategies to enable their organizations to continue and expand their important work.

Policy makers, donor agencies and other supporters of NGOs also have a vested interest in seeing NGOs achieve financial sustainability. It is therefore hoped that this paper will encourage such readers to increase their efforts to promote such institutional development for NGOs. Non-government organizations make our world a better place. Together we can ensure that they continue to grow and prosper.

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Chapter 1.

The Funding Challenge Facing NGO Managers

Despite the vast differences among the world's non-governmental organizations (NGOs), most share a common dilemma: Lack of funds limits the quantity and/or quality of the important work they do. Unlimited needs chasing limited resources is a fundamental fact of economic life in rich countries and in poor countries. It affects large international organizations, such as the United Nations, down to the smallest local NGOs. From rural development agencies to museums, and from health care providers to education and training institutes, managers of NGOs must often pay as much (if not more) attention to ***finding*** funds as they do to ***using*** those funds.

NGOs increasingly find that grants and donations are inadequate to meet current program needs, much less to expand program activities. With so many worthy causes that address genuine needs competing for the attention and generosity of the public, even wealthy donors lack the resources needed to fund every worthwhile effort. Furthermore, as populations grow, so do the numbers of vulnerable groups needing assistance from NGOs. New problems can appear, such as HIV/AIDS, which demand urgent attention and require substantial funding. Meanwhile, NGOs face rising costs for staff and other program inputs, further straining their limited budgets.

Dependence on grants and donations can also inhibit the autonomy of NGOs to choose which program activities to undertake and to select the most effective intervention strategies to achieve program goals. To a certain extent, all donors have their own agenda, i.e., their own views as to which problems are important and the best intervention strategies to address these problems. NGO managers may be compelled to ***"follow the money"*** and allow donors to dictate the scope and direction of their activities, or else receive no funds at all. As the old saying goes, ***"beggars can't be choosers."***

Another problem is that many grants and donations carry restrictions on the types of expenses that they may cover. The most common restriction is to cover only direct program costs, but not the cost of support services or other overhead costs incurred by the NGO. The NGOs must ***"contribute"*** these costs on their own, or at least cover an increasing share of these costs over time. But how?

Even those NGOs fortunate enough to be fully funded in their current operations may face uncertainty over future funding. If the problems they address are still around in five, ten, twenty years, will donors keep paying program costs ***ad infinitum*?** Or will donors' generosity shift to other more needy or more popular causes? As one country develops economically, will donations be diverted to other, poorer countries? Could local political or social problems lead to a cut-off of donor support? What if a key donor itself goes out of business? The uncertain continuity of donor funding, be it short term or long term, makes it extremely difficult for NGO managers to plan and implement their organization's core activities. It also may force an NGO to live a project-to-project existence, being unable to make long term plans to expand core activities or to improve the quality of program services.

Thus we see that today's NGO managers face an increasing need for their organizations' services, increasing costs for providing those services, and an increasingly competitive and restrictive environment for obtaining funds through grants and donations. At best, these problems prevent NGOs – and those they serve – from reaching their full potential; at worst, the very survival of many NGOs is at stake. The challenge facing NGO managers is to find ways to increase their financial security without sacrificing the mission of their organizations.

There is no standard, proven method to meet this challenge. All NGOs are different in terms of their missions, philosophies, client bases, skills and experience. But increasing financial security is an important part of planning for all NGOs. Becoming completely independent of donors may be a realistic goal for some NGOs, while trying to self-generate funds just to cover overhead costs may be more suitable to others. Still others may legitimately determine that relying on grants and donations, at least for now, is the best approach. There is no right answer. It is up to each NGO and its managers to consider all the funding options available and to choose the most appropriate mix, just as they must determine which core activities and implementation strategies are most appropriate to their mission and goals.

Chapter II.

The Response to Date

The funding challenge described earlier is already well understood by most NGOs, and many have responded with the same entrepreneurial spirit, good planning and hard work that brought them success in their core activities. They have expanded fund-raising activities directed at the general public, tapped new corporate donors for monetary and in-kind support, and held one-time events such as the LIVE/AIDS concert. They have redesigned program implementation strategies to include cost-recovery components whereby the beneficiaries of the program pay part, and sometimes all, program costs. And today we even see NGOs owning and managing restaurants, tour companies, banks, clinics and other businesses.

Consider the case of museums. A generation ago, most covered their costs through wealthy patrons, civic grants, and minimal admission fees. Now, museums commonly have restaurants to feed their visitors, operate shops that sell reproductions of their unique artworks along with other products that appeal to the tastes of museum goers, and rent out their exhibition halls for private receptions and events.

Likewise, Goodwill and Oxfam have long operated retail stores to subsidize their development activities, and T-shirts and other promotional items sold through shops, catalogs and the internet are net sources of cash for CARE, Save the Children, the World Wide Fund for Nature and many other NGOs. Cards and calendars from UNICEF are popular worldwide, while the UN also operates shops at its major offices, implements programs in partnership with private companies to offset costs, and seeks donations outside its traditional source of payments by governments.

Large, broadly based NGOs are generally better equipped to diversify their funding sources than smaller NGOs. They can take advantage of their recognizable name and logo. They have more technical skills on which to build commercial activities. They have more contacts and connections with outside groups with which to form partnerships. And internally they have more experience adopting new programs and adapting to organizational change. These NGOs also often have a greater ***need*** to seek outside funding because of their higher costs for support services and overhead. On the other hand, smaller NGOs have the advantage that relatively small amounts of self-generated funds can make a big difference in ensuring their financial viability. For example, Green Line, a small environmental NGO in Slovakia, covers approximately three-fourths of its operating budget through membership fees, training charges, and the sale of books, games and promotional items.

Among outside supporters of NGOs there is the beginnings of a movement to help NGOs become more financially secure, but much more needs to be done. National and local governments increasingly are providing program grants for NGOs to undertake activities that the governments support but can't provide as effectively by themselves. Some also give general support grants to cover NGO overhead costs, reasoning that these funds will be leveraged many times over by the grants the NGOs receive from outside donor agencies. And more and more governments have begun changing tax laws and other regulations that restrict the ability of non-profit organizations to charge fees or engage in profit-making ventures.

The large international donor agencies have long encouraged NGOs to become self-reliant, while only recently starting to fund projects that include commercial components. But many donors still have restrictive rules and political or philosophical concerns about financing business ventures, and none have major programs directed specifically at empowering NGOs through profit-making enterprises. Smaller donor agencies such as German Agro Action, Enterprise Works Worldwide, the Roberts Enterprise Development Fund, NESsT, the Aspen Institute and other private foundations have been more active in helping individual NGOs establish businesses, and in trying to upgrade the commercial skills of the NGO community as a whole. Unfortunately, these efforts are still small and largely uncoordinated.

Chapter III.

Achieving Financial Security through Diversification

Any smart private investor will say that the key to financial security is diversification, i.e., holding a mixed portfolio of investments rather than depending on a single investment to meet current and future income needs. If you ***"put all your eggs in one basket"*** you – and your family – run the risk of hardship, or even ruin, if the basket drops. This cardinal rule of investing also holds true for NGOs that need a secure flow of income to meet current and future program needs.

In choosing the optimal mix of investment holdings to provide financial security, private investors match their portfolio to their individual situation, i.e., their current living expenses, planned future expenses for children's education, a bigger home, retirement needs, etc., with their personal philosophy or attitude toward risk. In selecting specific investments, they focus on areas where they have special knowledge, experience or interest, and weigh the expected return on the investment with the time and effort required to oversee it. And in overseeing their portfolio, they keep abreast of developments affecting their investments and change the mix as circumstances dictate. This process parallels how successful NGOs manage their portfolio of funding sources to meet their particular financial security needs.

NGOs can obtain funds to run their programs from three sources:

1) Interested third parties, who give to the NGO in return, primarily, for the personal satisfaction derived from doing good (grants and donations);
2) Beneficiaries of the NGOs programs, who value their participation more than the cost of participating (cost recovery);
3) Unrelated third parties, who will pay the NGO in return for something of value that the NGO can make or do for them (commercial ventures).

Problems and opportunities related to each of these funding sources are discussed in turn below. How they fit with each NGO's particular needs, abilities and philosophy, however, can only be determined by the management of the NGO itself.

Grants and Donations

Grants and donations have traditionally been the mainstay of NGO funding, and much has been written on how to organize fund-raising campaigns. Clearly, the more an NGO can tap the goodwill of the public for support, the more it can devote its time and energy directly on its mission. After considering their funding options, many NGOs might determine that relying fully on philanthropic support is the best fit with their organization's needs, abilities and values. But even in these cases, NGOs are wise to diversify their base of philanthropic support rather than being dependent on a single source.

The ***"market"*** of potential donors to NGOs doing good work in an area of genuine public concern is very large. It is also a very diverse market that can be broken down into ***"market segments."*** Possible ways an NGO fighting HIV/AIDS might segment its potential donor market are given below. The list is far from exhaustive or detailed. Rather, it is intended to illustrate the ***"market-driven"*** approach that successful NGOs use to tap donor support.

- The ***market for cash donations*** from individuals might require different approaches for:
  1) Wealthy individuals who can donate large sums,
  2) Middle income earners who can give regular, moderate amounts, such as through membership fees,
  3) The general public who might give to collection boxes placed at local businesses, and
  4) People with internet access.

- The ***market for volunteers*** might include:
  1) Medical students to care for AIDS patients in return for experience or school credit.
  2) Retirees with professional skills to be pro bono consultants.
  3) Other concerned individuals to help with administration and fund-raising.

- ***Corporate donors*** can be segmented into potential sources of in-kind donations of needed equipment and supplies, or sources of cash. Companies whose businesses somehow relate to the NGO's work could be approached differently from companies with totally unrelated businesses. Businesses located in the NGO's neighborhood are another possible segment.

- ***Community clubs and associations*** can give donations or organize one-time charity events with the proceeds going to the NGO. Another segment could be the social clubs of the expatriate communities.

Goodwill is not the only reason people give to worthy causes. To appeal for donations, NGOs must understand the motivation of their potential donors, just as commercial marketing executives must understand the different ***"tastes and preferences"*** of their varied customers. Some donors may wish to support only one aspect of the NGO's work. Corporations are often especially interested in the public relations benefits of supporting NGOs, while individuals may also want some form of recognition of their support. Some donors may want the chance to interact with the end recipients of their donation or to otherwise participate in the NGO's efforts. Others may require direct feedback on how their donations were used. And even donors with purely altruistic motives may increase support if they are kept abreast of the organization's activities. Sometimes a donor's motives may actually be detrimental to the organization, e.g., to obtain political support or to impose his or her will on the direction of the NGO's work. NGOs that recognize and respond to the motivations of potential donors will be more succesful at competing for their support.

The concept of segmenting markets and designing different approaches for each segment is really not all that new to most NGOs. An NGO fighting HIV/AIDS, for example, segments the market of potential program participants into intravenous drug users, the homosexual community, commercial sex workers, students, etc., and designs different intervention strategies for each. NGOs that have been successful at applying for grants have learned to segment the market of potential donor agencies by the types of projects they support (training, women's issues, the environment, etc.), the intervention strategies they prefer and the amount of funds they can provide. These NGOs tailor their grant proposals to match the ***"tastes and preferences"*** of different donors.

Cost Recovery

When an NGO's programs bring real value to its beneficiaries, many beneficiaries (but perhaps not the poorest of the poor) will gladly pay something to participate in the programs. By ***"selling"*** rather than giving away their services, NGOs can recover part or all of their costs, better allocate their services to those who truly value them, and enhance the self-esteem and commitment of participants. More and more NGOs are thus designing intervention strategies that incorporate cost recovery components through ***"fees-for-services"*** or various loan and credit arrangements.

For example, Les Centres pour le Developpement et la Sante (CDS) in Haiti received a grant to install a drinking water system in a slum area of the capital Port-au-Prince. Residents pay a per bucket fee for the water, which covers all operating and maintenance costs of the system and also generates a surplus that is used to improve solid waste collection in the neighborhood. In another example, social marketing programs for contraceptives typically charge for condoms and oral contraceptives, albeit at below-market prices. Requiring participants to contribute labor is another form of fee-for-service. For example, food aid recipients may be asked to donate labor to sort, package and deliver food supplies.

In Sri Lanka, the rural development philosophy of the Sarvodaya Shramadana Movement is centered on the principle of the ***"gift of labor"*** and hundreds of thousands of individuals have taken part. The value of that labor is immeasurable. Loan and credit arrangements require recipients to pay back costs over time. The loans may be interest free, or with interest rates below what participants could get from private banks and money lenders. The Grameen Bank of Bangladesh pioneered in this area through its micro-credit programs, and other groups such as KREP in Kenya and BancoSol in Bolivia have also been able to establish profitable banking operations that directly serve the poor.

All such cost recovery activities add a commercial component to the work of NGOs. The staff must start thinking in business terms, and have to learn specific business skills and concepts such as pricing, distribution channels, and cost accounting. They must also learn the ins and outs of the businesses of their borrowers if they are to administer loan programs effectively. The skills and experience gained may be the first step in enabling these NGOs to start their own commercial ventures.

Cost recovery activities also bring NGOs face to face with the harsh realities of the marketplace, which can fundamentally conflict with an NGO's compassionate mission and values. In the commercial world, businesses that don't make enough money have to cease operating. For that reason, people who cannot pay must do without, risky loan applicants are turned down, and defaulters lose their collateral. Sadly, NGO programs that depend on cost recovery components to sustain themselves may have to exclude from participation some of the people that the NGO most wishes to help.

Consider the social marketing of contraceptives. These programs need to bring in sales revenue to help cover their costs, while most of their potential customers recognize the value of the products and will happily pay something for them. But the law of supply and demand says that as the price of contraceptives goes up, demand for contraceptives goes down. Charging higher prices can improve the bottom line of these programs, but at the expense of hurting their ultimate goal to increase family planning practice rates. Furthermore, no matter how little the NGO charge for their products, some people may still be unable to pay.

Cost recovery programs demand that NGO managers make a trade-off between their programs' social goals and financing needs. They must try to serve the greatest numbers of beneficiaries while generating sufficient funds to meet whatever percentage of program costs are not covered by donations or subsidies from other activities of the NGO. There is no optimal balance, and some may have to be left out. But being able to help some people on a sustainable basis is better than helping no one at all. Hopefully, each NGO can find alternative ways to subsidize or otherwise assist those unable to participate.

This dilemma demonstrates why it is so much more difficult to manage an NGO compared to a strictly for-profit business. The predominant goal of business managers, even in the most socially responsible companies, is to maximize the return to shareholders. If a price increase is expected to reduce sales but increases profits, the price increase is approved. If a product line or service loses money, it usually is dropped. NGO managers, on the other hand, must try to maximize the use of their services, while being as concerned about the bottom line as their for-profit counterparts. NGOs value the continuation of their ***"money-losing"*** core activities and must earn resources from other activities specifically to help pay for, or ***"cross-subsidize"*** those activities that are not financially viable.

Commercial Ventures

Millions of farmers, street vendors, artisans and tradesmen manage successful businesses around the world. And the success and rapid expansions of micro-credit programs have shown that even the least educated and poorest of the poor can run profitable business enterprises. Despite this, many people still believe that NGOs are inherently unequipped to compete in commercial markets.

Actually, successful NGOs already have most of the skills required for business, and their managers think in business terms more than we realize. The best NGOs are clearly as entrepreneurial as the best private companies, being able to make things happen and create something out of nothing. Like commercial marketers, these NGOs find under-served segments of the population and design products and services to meet the needs of those markets. Good NGOs are effective in hiring and training staff, planning and budgeting, strategic planning, purchasing, public relations and other areas of management. Finally, these NGOs have a proven ability to acquire specialized knowledge and technical expertise related to their fields of operations and the businesses of their beneficiaries. The level of sophistication may vary, but the basic skills are there.

Two NGOs from the developing world that have been particularly successful at diversifying their sources of funding and expanding into business ventures are the Bangladesh Rural Advancement Committee (BRAC) and the Population and Community Development Association (PDA) of Thailand. BRAC was founded in 1972 to aid refugees returning home after the country's war for independence. It has since grown to become one of the largest and most broadly based NGOs in the world, with a staff exceeding 25,000 and an annual operating budget over US$ 100 million, of which less than forty percent now comes from grants and donations. BRAC's core activities are targeted at the destitute, the illiterate and the landless, encompassing rural development, education and training, health and population, and urban programs.

Managers at BRAC recognized early on that self-reliance for its target groups and self-reliance for the organization went hand in hand. All of its programs –from animal raising to credit programs to the production of low-cost education materials – are designed to optimize cost recovery while serving those in need. Programs that generate surpluses above their ongoing costs are used to cross-subsidize other valued programs. Sixty percent of BRAC's budget comes from these surpluses.

BRAC has also been very successful at expanding into commercial ventures that are consistent with the organization's mission and generate substantial profits. BRAC Printers began in 1977 to meet BRAC's own printing needs, and has since been spun-off as a separate entity that provides high quality printing services to private sector clients. The Aarong craft shops owned by BRAC bring income to thousands of rural craft producers and profits to the organization. BRAC's Cold Storage Facility helps potato farmers to store their output until prices rise, benefiting both the farmers and BRAC, while its Dairy and Food Project generates a surplus by linking rural milk producers with urban markets. Recently, BRAC has joined with other non-profit and for-profit organizations in establishing the Delta BRAC Housing Finance Corporation to promote affordable housing, and its new BRAC Information Technology Institute (BITI) aims to become one of the largest such institutes in South Asia.

Thailand's PDA is most well known internationally for its early pioneering work in family planning and more recently for its success in tackling Thailand's AIDS problem. The organization began in 1974 by establishing one of the world's first rural-based social marketing programs for contraceptives, supported by international grants, a network of over 16,000 volunteer distributors and fees charged for its products. Once this program was well established, PDA expanded its efforts to improve rural living standards with projects in primary health care, water resources, agricultural marketing and small-scale industries.

Mechai Viravaidya, the founder of PDA, has been one of the earliest and most vocal proponents of NGO self-reliance. Today, PDA covers over seventy percent of its annual budget from its own resources and it aims to be 100% self-sufficient by the end of the decade. Most of the income generating activities are managed by PDA's affiliate, the Population Development Company Limited (PDC), which is incorporated as a business entity but with by-laws requiring that all profits be donated to PDA. PDC operates for-profit medical clinics in Bangkok and major provincial cities, owns restaurants ("Cabbages and Condoms"), mini-marts and a handicraft shop, and markets a creative line of promotional items (key chains, t-shirts, coffee mugs, etc.) using condom and other family planning motifs. Other income earners for PDA include contracting out its research and training divisions to private clients and the rental of office space and conference facilities.

The growth of PDA's Cabbages and Condoms restaurants illustrates how a ***"mini-venture"*** can grow into a highly profitable enterprise. It all began when PDA staff and their friends used to gather informally after work for snacks, drinks and conversation in the small garden attached to PDA's headquarters. As its popularity grew, menu items were added and the restaurant expanded several times. It now operates out of a separate building next to PDA, has become one of Bangkok's most popular Thai restaurants with gross revenues approaching US$ 75,000 per month, and has expanded with branches in other cities.

In 1988, PDA began one of its most innovative and potentially far-reaching programs ever, the Thai Business Initiative in Rural Development, or TBIRD. The TBIRD concept is to match rural needs for better business skills and marketing opportunities with the money – and especially the talents – of private companies. Who better to show the way, argues PDA, than the business community? TBIRD takes advantage of the increasing interest of corporations to contribute to their country's development and foster their public image. The private companies provide the funds and business-specific knowledge and experience. PDA acts as the intermediary, supplying the skills, lacking in the private companies, to plan and organize village-level activities.

Linking private companies to rural development can take several forms. Some TBIRD companies provide resources to meet the basic needs of villagers in water, sanitation or other infrastructure. Other companies provide funds and technical expertise to improve income-generating activities of villagers in agriculture and cottage industries. Several TBIRD participants have even set up factories in the villages, producing shoes, textiles and jewelry for domestic and export markets, with PDA (through its business affiliate PDC) holding an equity stake in some of these ventures. To date, TBIRD has involved over 150 companies in 280 projects, bringing over US$50 million in resources to otherwise neglected areas of rural Thailand.

An exemplary TBIRD initiative has been the Nike Village Development Project in rural Chakkarat district of Northeastern Thailand. PDA has worked in Chakkarat for many years, and Nike joined TBIRD as part of its newly developed social agenda. The project began with the establishment of a shoe factory in the remote district; its success has led to other Nike-supported initiatives benefiting almost 3,500 families who previously struggled with lack of resources, employment opportunities and frequent drought. The relocation of factories outside Bangkok's industrial zone has strengthened local communities and dramatically reduced poverty. PDA calls this the privatization of poverty alleviation.

The achievements of PDA and BRAC offer lessons to all NGOs seeking to reduce their dependence on donors. First, both groups view self-reliance as a key organizational goal, but also as a long-term goal that cannot be reached overnight. Second, they focus on ventures that match their skills and experience and are consistent with their mission. Third, in their business ventures, as in their development work, they show flexibility and a willingness to experiment, while starting small and expanding only when they are confident of their technical, marketing and other skills. Finally, they look for partners who share their goals and can provide expertise that the NGO lacks.

Chapter 1V.

Strategies for NGO Commercial Ventures : An Overview

Strategic planning theory for business teaches that companies which expand face less risk if they focus on new businesses that take advantage of, or " ***leverage off*** " the existing core competencies of the company. Thus travel companies tend to expand into other travel-related businesses, while companies with strong marketing and distribution networks try to sell new product lines through those existing channels. NGOs take a similar approach when making strategic decisions to expand into new core activities; not all NGOs have the core competencies to work in HIV/AIDS, and many NGOs working in HIV/AIDS rightly choose not to be active in all aspects of the AIDS problem.

NGOs that want to start commercial ventures, while avoiding undue risk, should also focus on businesses that relate to their core mission and take advantage of their existing skills, staff and facilities. Such ventures are less risky because they can start out small, require little capital investment or other start-up costs, and cause the least disruption to the NGO's core operations. They can also be exited quickly if they fail to meet expectations.

A break down of commercial strategies being used by NGOs, large and small, is given below. Note that some commercial ventures may combine elements of more than one strategy. All the strategies require NGOs to divert some of their time and energy away from their core mission. NGO managers must strike a balance that optimizes resource generation without compromising the quality and quantity of the services they provide to their core beneficiaries.

- **Conduct core activities for paying clients**

Yayasan Kusuma Buana (YKB) of Indonesia provides primary health care services in poor neighborhoods of Jakarta. It helps subsidize these services by operating a for-profit clinic in middle-income district of the city. The Thailand Business Coalition on AIDS provides AIDS education and counseling services charging fees on a sliding scale based on their clients' ability to pay. SIQL of Croatia promotes environmental awareness among the general public supported in part by fees for training programs it provides to government and private groups.

- **Contract out support services to the private sector**

FUNREDES in the Dominican Republic capitalizes on its information technology expertise to offer website design, internet courses and network consulting to private companies. The Lotus Foundation in the Czech Republic uses a similar strategy. BRAC's ability to produce and publish high quality printed materials led to the formation of BRAC Printing. PDA and other NGOs with field research skills charge private clients to conduct field surveys and focus groups.

- **Market products made by their beneficiaries**

The Organizaçao de Ajuda Fraterna in Brazil assists street children to build a better life and sells furniture made by the young people to cover all its costs. Other organizations from Nyumba Ya Sanaa in Tanzania to Oxfam sell crafts and folk arts through shops, catalogs and internet sales. Many rural development NGOs benefit their beneficiaries and themselves by marketing agricultural products.

- **Tie-ins to public relations activities**

Environmental NGOs such as NACOBTA in Namibia, the Sierra Club, and country affiliates of the World Wide Fund for Nature run tourism businesses, publish nature books and own other ***"eco-enterprises"*** that generate profits and promote environmental awareness. Numerous other NGOs sell promotional items to earn funds while spreading the word about their mission and goals.

- **Maximize utilization of assets and facilities**

Asklepyos in Romania brings mobile health services to the poor, and rents its vehicles to outsiders when not in use. Several NGOs rent office space, training and conference facilities, audio-visual and other equipment. Others leverage off their convenient locations to open restaurants and mini-marts serving neighborhood residents. PSI/Zimbabwe took advantage of its distribution network for condoms to sell feminine hygiene and baby products produced by Johnson & Johnson on commission.

There is no reason why an NGO can't be involved in businesses totally unrelated to its core activities, so long as that business is not antithetical to the NGO's mission. (Imagine an NGO owning a liquor store or gambling casino!) However, the impetus for such a business is likely to come from an outside supporter of the NGO. For example, an in-kind donation of buildings would enable an NGO to become a landlord while a donation of computers might lead to an internet or e-mail service. PDA would not have invested resources in a shoe or jewelry factory were it not for its TBIRD project. Finally, those few NGOs fortunate enough to have endowments invest in a variety of businesses.

Chapter V.

The NGO as Business Owner : Special Considerations

When an NGO gets into business it encounters opportunities – and problems - not faced by other business owners. For example, the ***"do-good"*** image of an NGO may help it find donors to fund start up costs, hire professional staff at ***"below-market"*** salaries, obtain supplies and services at discount prices, use its network of supporters to promote the business, and get free publicity from local media. In addition, many potential customers are positively inclined to patronize businesses that use their profits for social betterment, and to give those businesses a second chance when minor problems occur. On the other hand, other potential customers may assume that NGO-owned businesses are inherently less professional and efficient than their competitors, while private banks may be biased against lending to untested NGOs.

Legal and Taxation Issues

Laws governing NGOs vary from country to country. Some countries allow tax-exempt organizations to own for-profit enterprises; Other countries require that the for-profit enterprise be ***"directly related"*** to the principle work of the NGO; And in many developing countries, laws concerning commercial earnings of NGOs may be unclear. Before starting any business venture, NGOs must first be clear about the legal ramifications of the business on their tax-exempt status.

Cost allocation is another issue. The for-profit activities of an NGO will share overhead and other costs with its non-profit activities. It is in the best interest of the NGO to allocate as much of these costs to its for-profit activities, so as to reduce the for-profit's tax liability. But allocating costs to the for-profit operations, however justified and in compliance with the law, may invite the unwanted scrutiny of tax authorities. In addition, when an NGO undertakes for-profit ventures, the financial records of the entire organization may be subject to public disclosure laws pertaining to business entities.

Internal Conflicts

Much of the success of NGOs can be attributed to the shared vision of their dedicated employees and volunteers. Bringing commercial enterprises into an NGO will disrupt internal cohesion if staff view ***"profit"*** *and* ***"business"*** as inherently unethical. To prevent this conflict, managers must communicate to their staff the vital importance of financial security to the organization's social goals, demonstrate that the NGO will operate its businesses without exploiting others, and remind staff that all donations ultimately originated from someone's profit, either freely given or paid in taxes.

The staff of the NGO may also argue that the organization's core mission will suffer if scarce resources are diverted to profit-making ventures. This is a legitimate concern, especially in the short run. (In the long run, the whole point of the profit-making ventures is to ***increase*** resources to the core mission.) Similar concerns can also arise whenever NGOs expand their core activities into new areas to the possible neglect of their existing work. Good management always requires effective allocation of scarce resources throughout an organization.

When non-profit and for-profit activities operate side-by-side, some ***"culture clash"*** is inevitable. For-profit staff are usually compensated differently, evaluated differently, and have different skills and educational backgrounds than non-profit staff. The non-profit staff may resent the higher salaries and other perks of their for-profit counterparts who, in turn, may feel like ***"hired hands"*** unappreciated for their contribution to the NGO's mission. Good leadership may reconcile these conflicts: If not, separating the two arms may be the best solution.

The Dangers of Success

When an NGO's business ventures, individually or collectively, grow to significant size, the above-mentioned issues may be exacerbated and new problems may arise. Staff may feel that business activities have overshadowed the organization's mission. Other local NGOs may resent its success. Government tax authorities may reconsider the NGO's tax status. In addition, traditional donors may disagree with the direction the NGO is taking, or decide that the NGO no longer needs their donations to support its good work.

As an NGO's businesses become successful, private competitors may also start complaining that the NGO has an unfair advantage due to its lower cost structure and exemption from income and value added taxes. The case of the YMCA, one of America's oldest NGOs, illustrates this point. The YMCA has long provided athletic facilities at low rates as part of its mission to promote the physical and mental development of young men. In recent years, the organization has upgraded these facilities into full-service fitness centers profitably serving the middle class. As a result, private health club owners are asking local governments to review the YMCA's tax exemptions, and some of its traditional donors are questioning why its resources are not serving those most in need.

Social Responsibility

All private companies face pressure to be good corporate citizens. For NGOs this pressure is particularly strong, and rightly so. NGOs must make special efforts to be socially responsible in their business affairs. They must offer good wages and benefits, ensure worker safety, protect the environment, etc., even when this puts them at a cost disadvantage vis-à-vis their less responsible private competitors. Ideally, NGO businesses can show that profitability and social responsibility are indeed compatible, and thus serve as a model for the rest of the corporate world to follow.

Chapter VI.

Getting an Idea and Planning the Business

When a business fails (and most new businesses do fail) it is due to one of three reasons:

1) An ill-conceived idea – the entrepreneur misjudged the extent to which potential customers wanted or were willing to pay for the product or service;
2) Inadequate research and planning – the entrepreneur failed to consider important factors affecting the business, and/or failed to have contingency plans to address problems that might occur;
3) Poor implementation – the entrepreneur overestimated the organization's ability to provide the product or service and to operate the business as planned.

Even the most sophisticated corporations with MBAs from the best business schools, high-priced consultants and the latest computer forecasting models often start businesses that fail spectacularly. This is because business is part art and part science, with the art, i.e., creativity and judgment, the more important of the two. A good idea that is well implemented will succeed regardless whether the owner is a large NGO, small NGO, private corporation of individual entrepreneur.

The process of getting a business idea begins with assessing the skills and strengths of an organization (its core competencies) and coming up with a broad list of things that it could possibly make or do. The next step is a preliminary look at the current market for these products or services, paying particular attention to what motivates each segment of the market to choose among alternative suppliers (price, quality, location, etc.). Then one analyzes current suppliers (the potential competitors), looking at their strengths and weaknesses to see how one might have a competitive advantage over them, or a competitive disadvantage that must be overcome to compete against them. These steps are repeated in a series of brainstorming sessions among top management, staff who will operate or provide support services to the ventures, and perhaps trusted outsiders who can contribute valuable insights, adding more detail and refining the business concept(s) at each stage. Only then can one select the most attractive concept(s) and begin preparing the business plan(s).

An NGO's strengths, whatever its size, may include, but not be limited to, the following:

- Skills and technical expertise in its core activities;
- Skills and technical expertise in its support services such as training, research, publishing, and computer technology;
- Network of local supports as potential customers, providers of skills lacking in the NGO and promoters of the NGO's business;
- International donors as potential providers of funds, technical expertise and links with international markets;
- Convenient location;
- Physical assets such as vehicles, conference facilities, office space and equipment;
- Distribution channels;
- Understanding and ability to organize its beneficiary group(s);
- Name recognition;
- Dynamic or charismatic leadership.

Information about the total market and market segments for an NGO's products or services, along with the strengths and weaknesses of existing suppliers, can come from numerous sources:

- Published materials (government statistics, trade association, publications, local business media, brochures and promotional literature of existing suppliers, etc.);
- Discussions with potential customers, individually or through focus groups and surveys, to determine their buying habits, the factors that most influence their purchasing decisions, and reasons for their satisfaction or dissatisfaction with existing suppliers;
- Visits to potential competitors to see how they operate, or actually purchasing their products or services to learn their prices, policies and procedures, and to test their strengths and weaknesses.

A note on hiring consultants. There are three reasons why an organization may benefit from hiring consultants: management doesn't have the time to do the work, management lacks particular knowledge or skills required to do the work, or management feels that it lacks the objectivity than an outsider can bring. But good consultants are expensive. As they say, ***"If you pay peanuts, you get monkeys."*** Hopefully, an NGO's donors can be convinced to pay the costs of outside consultants if required.

The Business Plan

Business plans are very similar to the project proposals that NGOs use to apply for grant funds from donor agencies. Both tell the story of an underserved segment of the population, and the strategy and implementation plan whereby the NGO will meet the needs of the target group(s) more effectively than other organizations. Both are intended to communicate the story within the organization and to obtain funding from outside sources. And there is no standard format or optimal level of detail for either a grant proposal or a business plan.

In some cases, NGOs expand into new program or start business ventures using only their own funds. The plan becomes strictly for internal use and there is a temptation to forego the time and trouble of writing the document. This is usually a mistake. Putting it all on paper certainly isn't fun, but it does force careful, thorough consideration of all factors that may bring success or failure, often uncovering inconsistencies or potential problems that must be reconciled. Furthermore, verbal communication alone may be inadequate to ensure that all staff members understand the purpose and strategy of the business and their roles and responsibilities in its implementation.

What follows below is a brief summary of the key components that should be included in a business plan. The summary is particularly relevant to businesses that provide services rather than manufacturing businesses. This is because most NGOs are already in the ***"business"*** of providing services, and their core competencies are most directly transferable to service-based business ventures. More detailed guides to writing business plans are available at most bookstores and libraries.

1. **Executive Summary**
   A brief (usually less than one page) overview of the entire business plan intended to help readers understand the big picture before they begin reading the details of subsequent sections.

2. **Description of the Business**
   This section is also generally quite brief (usually two to three pages). It begins with background information on the NGO – its mission, goals, activities and the skills and expertise it has developed over time. This is followed by a description of the services the proposed business will offer, the market segments on which it will focus, its strategy for differentiating its services from those of its competitors, and the goals and objectives of the business. The purpose is to show how the business matches the core competencies of the NGO and fits with the NGO's overall mission.

3. **Market Analysis**
   This section describes the existing marketplace in which the NGO will conduct its business. It begins with an overview of the total market for the services to be provided by the NGO – the size of the market, growth trends and economic, social, technological or other factors that affect demand. Then the market is broken-down into market segments, with an analysis of the size of each segment and their different ***"tastes and preferences"*** i.e., the factors that influence their buying habits and determine how they choose among alternative suppliers. The market segment(s) whose tastes and preferences most closely match the services to be provided by the NGO thus become the target market(s) it will pursue.

   There are many possible ways to segment markets. The goal is to divide all potential customers into groups that share similar buying habits and thus can be approached using a similar strategy. For example, consumer markets differ from corporate markets; individuals can be segmented by age, occupation, gender, income, geographic location and ethnicity; corporate markets can be segmented by size, location, industry sector and the types of customers they serve.

Most private companies assume that their potential customers have no moral or ethical reason for preferring one supplier over another. NGOs are different. They can segment their market by ***"attitude."*** Thus many NGOs specifically target their businesses to customers who support their core mission. Their competitive advantage is that they provide services as good as their competitors while also helping society.

4. Analysis of Competition

This section begins with a broad overview of other companies that compete in the market for the services to be provided by the NGO. It includes who they are, their geographic coverage, market share, pricing and other policies, etc. It is followed by a more in-depth analysis of companies that directly compete for the market segment(s) targeted by the NGO, emphasizing the strategies they use and their strengths and weaknesses in serving those market segment(s).

5. Marketing Plan

A marketing plan consists of two parts. First is the marketing strategy, a detailed description of the market segment(s) on which the business will concentrate followed by an explanation of how the business will match the strengths of its competitors and capitalize on their weaknesses, thus capturing market share from them. The focus of the strategy is what marketers call your ***"unique selling advantage"*** which is the special benefit or benefits you will offer customers such as lower prices, higher quality, greater convenience, more personalized service or contribution to society.

The second part of a marketing plan describes how you will promote your product, i.e., how you will make potential customers aware of the services and benefits you offer. Options available to most businesses include direct mail, sales forces, advertising in print media, radio and television and personal contacts. NGOs can also use their volunteers, members and other supporters to promote their businesses via word of mouth, and try to get free publicity from local media to spread the word about their services.

6. Implementation Plan

The implementation plan, also called the operating plan, delineates the day-to-day activities that will be undertaken to set up and operate the business, starting from the day the business plan is approved. Implementation plans vary considerably depending on the type of business, but are likely to include the following:

- Obtaining the site for the business and making any needed physical improvements;
- Purchase or rental of equipment, furniture and other assets;
- Hiring and training of personnel;
- Supply of support services (information technology, maintenance, security, etc.);
- Supply of raw materials and other inputs;
- Production and distribution of sales promotion materials;
- Development of monitoring and evaluation systems;
- Public relations activities;
- Incorporating the business.

For each of these areas, the implementation plan breaks down the activity into its sub-components, specifies what is to be accomplished, assigns who will be responsible and sets a timeframe for completion. It is difficult to prepare because there are often direct linkages between activities and because many staff may have to split their time between the new business and their existing responsibilities to the NGO's core activities. Until you start preparing the implementation plan you may not realize how much time and effort will be required to actually start and run the business.

7. Financial Analysis

The financial analysis quantifies the NGO's business plan in monetary terms. It begins with a detailed list of all the start-up costs for the business (vehicles, equipment, legal and professional fees, etc.). This is followed by a breakdown of the monthly operating expenses to run the business (salaries and wages, rent, utilities, etc.).

The next step is to determine your ***"Break-even Point"*** i.e., the volume of sales that is required to cover the direct costs of providing the service plus other operating expenses. For example, assume that you sell a service for $100 and the direct cost of providing the service is $60. You then have a ***"gross profit"*** of $40 for each $100 in sales. If monthly operating expenses are $400, you must sell $1,000 in services each month to earn $400 gross profit and just break even. If you increase your prices so that each $100 in sales brings a gross profit of $50, then you only need sales of $800 each month to break even.

Unfortunately, it is impossible to accurately forecast the volume of sales that can be achieved at different prices. You have to make your best judgment based on your understanding of the market and your target customers. If you determine that the break-even point is unattainable, the business cannot be viable. The next step is to prepare ***"profit and loss statements"*** for the business given your best judgment (best case, worst case and expected case) of sales volumes you can achieve.

In its most simplified form the formula is:

		Total sales
Less	:	*Cost of Sales*
Equals	:	Gross profit
Less	:	*Operating expenses*
Equals	:	Net profit (loss) before tax
Less	:	*Taxes*
Equals	:	Net profit (loss) after tax

The profit and loss projections are your best estimates of the amount of profit the business is likely to bring to your NGO. You might have to decide that the business, although profitable, simply will not bring in enough profit to justify the time and effort required.

One of the most common reasons why many businesses go under is that the planners underestimated the time it would take for sales volumes to reach profitable levels. Each month the business has ***"negative cash flow"*** meaning that it spends more money each month than it takes in. If the owners don't have enough money to keep supporting the business until it becomes more popular they are forced to go out of business. In planning the amount of funds needed for the business it is ,therefore, important to include sufficient funds to cover such possible negative cash flow.

Chapter VII.

Conclusion : The Question of Timing

Many entrepreneurs spend years thinking about and planning a business before they actually start operations. For NGOs, starting a business is only one possible route to achieving greater financial security, which in itself is a long-term goal that cannot be reached overnight. It is counter-productive to rush into business before your NGO is ready. But it is never too early to start laying the foundation for your entry into the business world. Start by doing the following:

- Learn more about business in general and about the specific businesses your NGO could undertake. Read business journals, visit trade shows, surf the internet, collect brochures and advertisements from potential competitors, site out locations, take management courses and so on.

- Analyze your own consumer behavior. Why does your NGO patronize certain suppliers and not others? What influence does price, quality, convenience and other factors have in determining where you eat, shop and hire professional services? Learn to think about yourself and your NGO as members of market segments.

- Develop your contacts, especially in the business and academic world. Let them know of your plans to eventually get into business and encourage them to think of ways they might support you. Perhaps an MBA student could work as an intern or a private company could hire your research staff to do a field survey. Remember that you must find opportunities because they rarely find you.

- Finally, talk up your plans with your donors. Lobby them to establish programs to promote commercial ventures for NGOs through grant funds for management training, hiring business consultants, and providing investment capital for NGOs to start their own businesses. Ultimately the most effective way for donors to use their own limited resources to help the world's 1.2 billion people who live in poverty is by actively promoting financial security for the world's NGOs.