

International Perspectives on Social Ventures/Enterprises

A collection of papers* by participants at Alcoa Foundation's International Social Venture/Enterprise Initiative Forum

Held at the Johnson Foundation's Wingspread Retreat Center, Racine, Wisconsin June 19 – 21, 2003



** Minor edits have been made on some of the papers by Alcoa Foundation*

Table of Contents

	Page
Some Fundamentals and Tips for Sustainable NGO Operations	3
<i>By Maria Anna de Rosas-Ignacio Partnership of Philippine Support Service Agencies (Philippines)</i>	
Global Trends in Financing the Social Sector: How Successful Social Entrepreneurs Mobilize Resources and Leverage Their Ideas	18
<i>By Mirjam Schöning Schwab Foundation for Social Entrepreneurship (Switzerland)</i>	
Unique and Universal: Lessons from the Emerging Field of Social Enterprise in Emerging Market Countries	28
<i>By Nicole Etchart and Lee Davis Non-Profit Enterprise and Self-sustainability Team (NESsT) (Chile)</i>	
Non-profit Enterprise: Social Entrepreneurship or Rather a Survival Game?	41
<i>By Dušan Ondrušek and Peter Gušťařík Partners for Democratic Change Slovakia (Slovakia)</i>	
A Successful Social Enterprise Responds to the Market	50
<i>By Julius Walls, Jr. Greyston Foundation (USA)</i>	
Appendix A: Profiles of Selected Social Entrepreneurs	55
<i>Provided by Mirjam Schöning</i>	

**Some Fundamentals and Tips
For Sustainable NGO Operations**

by Maria Anna de Rosas-Ignacio

Partnership of Philippine Support Service Agencies

(Philippines)

Some Fundamentals and Tips For Sustainable NGO Operations

by Maria Anna de Rosas-Ignacio

Maria Anna de Rosas Ignacio (Me-an) started her career in development work as a labor organizer. While still a student of Business Management at the Ateneo de Manila University, she worked as a volunteer in Worker's College, an extension program of the university and continued her work as labor educator and organizer upon graduation. She moved on as a formator of community workers and organizers, starting a foundation with the aim of assisting urban poor communities in their quest for security and land tenure.

Believing in change through people empowerment and multi-stakeholder collaboration, she was a critical contributor in the creation of a network of NGOs working with various urban sectors. For almost ten years she was the National Coordinator of the Partnership of Philippine Support Service Agencies (PHILSSA). She also worked in government services as the Assistant General Manager of the National Housing Authority. Me-an is well known in the NGO community particularly for her facilitating and organizational development skills. At present she serves as adviser to PHILSSA, a network of non-governmental organizations, and teaches at the Department of Strategy and Management of the Ateneo de Manila University. She also heads various projects involving multilateral, government, civil sector and private sector organizations.

THE FUNDAMENTALS OF SUSTAINABILITY

Sustainability is a concept that is extremely relevant to the Philippine Civil Society. But how to achieve sustainability has yet to be explored in detail. The Philippine NGO community through its umbrella network, the Caucus of Development NGO Networks or CODE-NGO, makes an attempt to capture the various levels of discussion on this key development concept and—on a more practical plane—to present it as a process with many approximations.

Sustainability has various facets. As can be seen from the different materials on the topic, sustainability implies improving the way civil society accesses, mobilizes and generates resources. This involves diversifying sources and approaches to increasing resources for development work.

This writer, through the article on existing NGO practices and operations for sustainability, hopes to provide readers with an inventory of varied strategies and tactics that a development manager may use to make one's organization self-sustaining.

The concluding chapter of the book on sustainability entitled "*Sustaining Civil Society: Strategies for Resource Mobilization*" (Fox & Shearer, eds., Civicus, 1997) reflects the same conclusion that we will get from this article: that there is really *no single approach* to sustainability. The key therefore for institutional continuity and to being more effective catalysts in society is in diversifying their approaches.

How to be able to choose the appropriate combinations depends on the institutional capacity of organizations to plan, manage and evaluate their activities effectively.

Sustainability is also among the core themes in a development managers' course being designed and developed for CODE-NGO's "*Successor Generation Project*." During our initial faculty team meetings for this course, the importance of going back to the very essence of development organizations—their *raison d'être*—has been emphasized time and again.

Many NGOs tend to overlook their original (and continuing) reason for existence, and fall into various "development entrepreneurship" or "profit-for-a-cause" modes while forgetting the fundamental considerations of their organization. NGOs need to review the reason for forming their organizations in the first place; this should determine their strategy for sustainability.

Also prominent during our discussions was that one's choice of strategy for sustainability is heavily determined by its primary partner. The sustainability of primary or membership organizations (people's organizations and cooperatives) lies in the sustainability of its members. If the members are heavily dependent on the servicing entity—be it an NGO or a network secretariat—then the organization's future may be short-lived.

This is also true for network organizations, which are also membership organizations (others would categorize them as tertiary or intermediate organizations). The sustainability of NGOs or secondary organizations depends on ensuring that the sustainability of POs is being addressed. If the primary partners do not value the organization's contribution, then they will not be interested in seeing that organization endure.

But aside from an organization's primary partner, its relationships with other development players—i.e., government and the private business sector—also need to be revisited. This points to an emerging trend of recognizing that sustainability is a shared task with other sectors of society.

Longer-term and strategic partnerships with both traditional and non-traditional partners have been explored by many NGOs, with gains and gaps. Authentic partnership on this level presupposes a balanced and principled relationship, an "*equilibrium and interaction of mutually interdependent and complementary stake holders*" (Civicus 1997). Such partnerships will only flourish if there is democracy, rule of law, equity, and social investment.

Sustainability therefore refers to many recurring themes, which drive the Philippines NGO movement at present: creativity and innovation, relevance, and enhanced partnerships. May the cases shared in this paper provoke us into more liberating experiments in sustaining our work.

SEARCHING FOR SUSTAINABLE NGO OPERATIONS: TIPS FOR NGO MANAGERS

There has been a perceptible shift in the level of NGO discussion regarding the concept of sustainability. Whereas before, "sustainability" was discussed more as a general principle, it has now been translated into programs and projects that either decrease expenses (e.g., through savings) or increase incomes (e.g., from investments and resource-generating ventures). Sustainability has gone beyond being merely an abstract motto to being a concrete concern for ensuring the continuous provision of services to partner beneficiaries.

The following formula is a simple representation of how NGOs create the resources needed to be more sustainable:

$$\text{Money In} - \text{Money Out} = \text{Excess Funds}$$

Excess funds refer to the positive balance of financial resources from previous operations. These excess funds can then be used in any of the following ways:

- plowed back as program funds to either expand the scope—or extend the term—of an existing program;
- set aside as reserve funds in case there are delays in the receipt—or even cuts—in expected program funds;
- used to experiment on new programs or trailblazing projects which as yet do not have external support;
- used for investments—either financial (e.g., time deposit, money market, stocks), or in income generating projects (e.g., T-shirt selling, shows/plays, services).

Money-in simply pertains to all funds received by the NGO in any of the following forms:

- grants
- loans
- interest incomes (income from savings accounts)
- investment incomes (to include income from financial investments, income generating projects, and “sale” of service).

Money-out refers to all incurred expenses:

- salaries and wages
- supplies and materials
- rentals and utilities
- direct program costs (training expenses, mobilization, publication, transportation, etc.)
- equipment
- loan payments

Using the above formula, an NGO can have three ways of increasing excess funds. One is by increasing the *Money-in* variable, e.g., greater access to more grants/loans; investment in high yielding ventures; or increase in sale of services.

Another is by decreasing the *Money-out* component by always looking for the best item for the least cost, recycling supplies, minimizing expenses in utilities (use less water, less electricity) and doing away with excessive and unnecessary expenses. The last is of course a combination of the first two—“creating” (i.e., accessing and earning more money; spending less).

How then have Philippine NGOs fared in increasing excess funds? Not surprisingly, NGOs have been quite innovative in increasing funds for and in decreasing costs of development work.

In the next few pages is an inventory of the different practices of the NGO members of the *Partnership of Philippine Support Service Agencies* (PHILSSA) network. (PHILSSA is a network member of CODE- NGO.)

Aside from providing the reader with a listing of current practices, some practical tips and considerations are also cited to help development managers decide how to introduce such operations in her/his own organization.

INCREASING “MONEY-IN”		
	Examples	Considerations and Tips
Establishing new programs; Developing new funders	<ul style="list-style-type: none"> • Resource from other funding partners leveraged as counterpart funds, possibly increasing amounts to be accessed. • For university-based NGOs, a program financed by a department of a College or University in exchange for NGO materials, arrangements for exposure trips to poor areas, and other services that the NGO can provide the school • Developing a core of individuals whom you can tap for resources and expertise. • Forging partnerships with local government units (LGUs) and private corporations. 	<ul style="list-style-type: none"> • Make sure that you have the capability to deliver on the new programs. • It is most important that you maintain a very good track record and that this is projected to your existing and potential partners. • Make sure that the practice of “leveraging” is acceptable by your funding partners. • Introduce internal financial controls to ensure that double funding of the same budget items is not done. • Always acknowledge whatever resources you receive; send out “thank you” notes or e-mail messages. Take good care of those who care for you and your organization. • Know your non-negotiables, and when you have to disengage from a partnership. Translate principles into concrete practices, mechanisms and indicators.

INCREASING “MONEY-IN” <cont’d>		
	Examples	Considerations and Tips
“Selling” your expertise and/or services	<ul style="list-style-type: none"> • Research or consultancy work • Publication services: editing, writing, lay outing, printing • Facilitating and documentation work • Organizing seminars and conferences 	<ul style="list-style-type: none"> • NGO staff members usually accept various jobs of this sort; it now becomes a matter of institutionalizing this practice to make sure that the interests and welfare of the NGO are not sacrificed. Discuss this among staff members and install systems and policies on how to go about this. • Discuss standardization of rates (e.g., know the “industry rates”; ask around; request your network secretariat to do a survey among its members to determine common rates), and sharing schemes between the NGO and the individual. • A good track record is important; if you are just starting, you might offer your services at a comparatively lower price, or even for free just to establish yourself.
Marketing NGO “products”	<ul style="list-style-type: none"> • Publications: newsletters, books, monographs • Products produced by communities • Special activities (i.e., sponsorship of movie premieres, concerts, plays, etc.) 	<ul style="list-style-type: none"> • Sell where there is a captive market: conferences, seminars, exhibition, and schools. • Check pricing/rates, making sure that your prices are competitive. Make sure too those producers are given their fair share of the price; the aim of sustainability is not an excuse for exploitation. • Work with existing networks that already do marketing of NGO products; it will be more costly to start your own marketing network. (There are now a number of specialty shops, which offer NGO products for consignment.) • Packaging of the product is important. Seek assistance in product development to make it attractive and marketable. • Make sure the product, packaging, price, ad cost sharing are consistent with your organization’s principles. Discuss these matters with your staff and the organization supplying the products.

INCREASING “MONEY-IN” <cont’d>		
	Examples	Considerations and Tips
Marketing NGO “products” (cont’d)		<ul style="list-style-type: none"> Do not do special activities too often. Selling tickets (e.g., to shows) is too time-consuming, and if you always go to the same market or buyers, they might get tired of patronizing your special events.
Investing in strategic assets	<ul style="list-style-type: none"> Buying or building your own facilities (office, seminar house, meeting place); Investing in equipment (e.g., for publication/video: laser printer, computer, scanner, mega show) which you can rent out. 	<ul style="list-style-type: none"> The organization should have enough excess capital to invest. If unable to raise sufficient resources, you may decide to take out a loan. If so, make sure that a proper feasibility study is done to check the potential return on investment (ROI). Apply the rental budget as income for your NGO or for amortizing of the loan used in acquiring the assets (i.e., land, buildings).
Investing funds in “trust accounts” / market instruments	<ul style="list-style-type: none"> Putting savings in time deposit accounts of the money market; Buying stocks, commercial papers, securities; Setting-up a trust fund. 	<ul style="list-style-type: none"> Always make sure that there is someone in your organization who understands money matters. Do not engage in high-risk investments. Do not invest committed or program funds without prior clearances from funding partner. For some it is a basic rule not to invest this type of fund at all. Monitor your funds regularly and competently.
Engaging in cost-liquidating programs and projects	<ul style="list-style-type: none"> Micro-credit facility; Savings and loans programs; Establishment of a trading company for small enterprises created by the credit program. 	<ul style="list-style-type: none"> It is advisable to have members of your staff who understand and have a knack for these kinds of programs. Be part of a network of credit providers. There are now a number of consortia, networks and federations of NGOs into this.

INCREASING “MONEY-IN” <cont’d>		
	Examples	Considerations and Tips
<p>Setting up consortium projects within your network, or with kindred NGOs</p>	<ul style="list-style-type: none"> • The network (or a lead NGO) can access money for block funds, which can then be farmed out to the different participating NGO members 	<ul style="list-style-type: none"> • Consortium projects can be done if the network has established a good track record. The network secretariat may be tasked to develop proposals for its consortium of member NGOs. • These proposals may be packaged as capability-building projects for the participating NGOs, but this assumes that they also bring in a certain level of expertise and capability to the project.
<p>Creating “profit centers”</p>	<ul style="list-style-type: none"> • Set-up a resource generating unit that complements your development, services (e.g., urban poor service NGOs providing a complete package of services related to housing) • Some of the services above can be handled by a full-blown profit center 	<ul style="list-style-type: none"> • Resolve the more basic issue of combining the management of profit center and non-profit organization (difference in philosophies, make-up, skills interest, culture). The integration or non-integration of the two worlds—as represented in the NGO’s organizational structure—is a fundamental matter which the key individuals of the organization must deliberate on. • Choose a project that you understand and of which you have a working knowledge. • Come up with an integrated approach to the basic development of the “product” or service you are providing and identify which component is marketable and for which you could create a “for profit” unit. • Do a proper project feasibility study. Discuss your plan with other NGOs who are into the same kind of endeavor. • Foresee tension areas (e.g., difference in salaries/benefits of employees in non-profit and for profit ventures; how much should be set aside for capital build-up and the portion to be distributed as benefits) discuss, and lay down policies for these.

DECREASING “MONEY-OUT”		
	Examples	Considerations and Tips
Minimizing expenses, generating savings	<ul style="list-style-type: none"> • Recycling paper and other similar materials. • Minimizing unnecessary spending (e.g., foregoing merienda during seminars, just serve simple fare, or none at all). • Improving ventilation and natural lighting of office to minimize utilities costs. • Rationalizing mailing and delivery schedules, e.g., sending and receiving e-mail to minimize costs. • Soliciting second-hand equipment and appliances from friends and sponsors instead of buying brand new ones. 	<ul style="list-style-type: none"> • Oftentimes small efforts to save on existing resources are not given much attention but they add up significantly in the end. • Design a system that could be encouraging savings by all staff members (e.g., mandating that a percentage of all savings realized for the year shall be distributed to the staff). • Some companies change their equipment and furniture regularly; see if you get donations from them or arrange to buy these at much lower prices. • Always canvass before buying (at least 3 quotations recommended) and start with reliable stores recommended by other NGOs.
Reducing the risk of bad debts	<ul style="list-style-type: none"> • Controlling fund releases: disallow fund releases unless previous ones have been liquidated (e.g., the standard period for reporting is a week after the activity). • Set-up or join a cooperative of NGO staff members that provides staff loans, instead of using the funds of the organization. 	<ul style="list-style-type: none"> • As a rule, do not grant salary advances and loans that you feel you cannot collect later. • Joining a viable cooperative could be made a requirement for your staff. It is good practice for development workers to be members of cooperatives; scout for existing co-ops instead of creating your own; they could provide better rates and better benefits.
“Piggy-backing” operations with other organizations or projects	<ul style="list-style-type: none"> • Sharing facilities and staff functions with other offices/NGOs (e.g., streamlining messengerial and publication staff). • Rewarding competent and efficient staff by allowing them to take on more than one project. 	<ul style="list-style-type: none"> • Go over each asset (land, equipment, building, people) and check if your organization is optimizing them; the operational word is “optimize”—no exploitation or over-burdening. • Check the capacity and actual workload of the staff. Then discuss realistic work distribution and just compensation packages, and be sure that agreements are reached. • Codify or put in writing guiding policies and procedures for benefit and cost sharing.

DECREASING “MONEY-OUT” <cont’d>		
	Examples	Considerations and Tips

<p>Developing partnerships with other civil society organizations and institutions</p>	<ul style="list-style-type: none"> • Tie-up also with church and/or academic institutions; they could provide space/facilities for less cost. 	<ul style="list-style-type: none"> • Formalize the partnership. Often the initial arrangement is based on personal relationships; when the NGO leader moves on, the links are also severed. Make sure that the “favored-NGO status” remains even if the original persons involved are not there anymore. • The NGO must identify the benefit or value it can also bring into the arrangement.
---	--	---

The practices and operations cited above are just some examples of “creating” new money for the organization. Surely, there are other ways of doing this, and one should be creative and innovative. For smaller NGOs however, these examples are workable ones that could be tried out.

Some Underlying Issues

Non-Profit vis-à-vis For-Profit (“Money-Making”). When the issues of sustainability are involved, some underlying assumptions color the preference for particular types of projects and interventions. For a long time, the possibility of engaging in profit-making ventures was often scorned in development circles, but there is more openness now compared to before.

Questions of balancing non-profit operations with “for-profit” projects continue to be raised and debated. Profit-oriented culture, skills, traditions and principles are red flags that caution many NGOs from blindly jumping into the bandwagon of money-making ventures.

Organizational Relevance. The crucial question seldom surfaced is WHY should one’s organization be sustained in the first place? For this writer, designing any sustainability intervention has to stem from an appreciation of what the organization should and can contribute to development praxis. If the organization is effective in its work and delivers services and programs efficiently, there is a natural and smooth transition into ways how its valuable services could be continued.

But for leaders of organizations who still agonize over ways to continue their operations, they might need to rethink the worth of their services, and the wisdom of continuing what they have started.

The changing environment warrants changes in organizations. And it is the environment outside and within the organization that will provide clear signals whether an NGO will continue to be relevant or better off just discontinuing its existence.

Note: The writer would like to acknowledge the following NGOs whose directors gave their time to provide inputs for this article: *Institute on Church and Social Issues, Institute for Social Order, Foundation for the Development of the Urban Poor, Center for Agrarian Reform and Rural Development, Kalamboan ng Kauswagan sa Kabisay-an Foundation, Foundation for Development Alternatives, Balayan Community Extension and Volunteer Formation Office, Ateneo Center for Social Policy and Public Affairs, Center for Children’s Welfare and Community Development, Community Organizing Philippine Enterprise, Sentro ng Alternatibong Lingap Panlegal, Kabalikat ng Pamilyang Pilipino, Fellowship for Organizing Eneavors, Inc., Community Organization Training and Research Advocacy, Center for Community Services, Social Development Index, Harnessing Self-Reliant and Knowledge, Inc. and the PHILSSA Secretariat.*

SUSTAINABILITY THROUGH MAINSTREAMING WORK IN A GOVERNMENT PROJECT: THE COMMUNITY PARTNERSHIP FOR HEALTH CASE

Introduction and context of the project

The Government of the Republic of the Philippines through its Department of Health (DOH) sought out to “make health accessible, available, acceptable, and affordable at all times within the context of an effective and efficient devolved health care system that leads towards self-reliance, sustainability, and indigenous effort.” The DOH realized that there was a need for a paradigmatic shift in looking at the health services to the general public. It was necessary that changes in the system should emanate from a new framework and paradigm in thinking of, feeling about, and experiencing access to health care. It must be recognized that any health care delivery system serves a spectrum of beneficiaries, from the well to the sick. All the elements of the health sector, the communities, support organizations, technology, local government units, and financial resources, need to be brought together and harmonized to produce results and achievements, which should be measured over time and against benchmarks.

The Urban Health and Nutrition Project was designed with these considerations. It was to be gender-sensitive, partnership-based and prioritized the vulnerable groups and sectors in society. One component of this comprehensive project was the Community Partnership for Health or CPH, which aimed to assist urban poor communities in identifying and addressing their health needs using integrated approaches and processes while in partnership with local government units (LGUs), non-government organizations (NGOs), and people’s organizations (POs). Funds for this project were made available through a loan from the World Bank.

CPH had three objectives. First, it aimed to strengthen groups in urban poor communities to identify and address their health needs and service delivery gaps in the areas of tuberculosis control, integrated maternal and child health, and environmental health. Second, it planned to demonstrate workable mechanisms of coordination among stakeholders at the local level to concretely address urban health issues. Finally, it intended to build the capacities of all stakeholders in managing and sustaining community partnerships for health.

Initially, the LGUs were made to be the prime mover of the CPH component. The LGUs, through their health units, were to assist in the organization of communities and the identification and implementation of health projects. The early years of CPH had very limited success because of problems encountered such as the level of capabilities, availability of counterpart resources and bureaucratic red tapes. In the extension period for the project, the DOH approached the NGO community to help them in project implementation. The Project Management Office of the DOH advertised an invitation to the NGOs to participate in a bidding process.

Three NGO networks, namely, CARE-Philippines, the International Training Network (ITN), and the Partnership of Philippine Support Service Agencies, Inc. or PHILSSA, responded to the call for proposals. In the early months of contract negotiations, the three agreed to take on CPH as a consortium by dividing the CPH components among themselves. However, as months passed with no clear indication of the project timetable, CARE-Philippines decided to withdraw from the project. ITN and PHILSSA persisted until a contract between and among the Department of Health, ITN and PHILSSA was perfected on August 29, 2000, with the understanding that the project would be completed by December 31, 2000. ITN also withdrew from the project leaving PHILSSA to deliver on the project outputs with very limited time remaining.

Project Implementation

The nature and size of the project required the participation of various groups and stakeholders including the Department of Health, local government units, the World Bank, PHILSSA, NGOs, and people's organizations (POs) (see diagram 1). Each participating group had a relevant role to play.

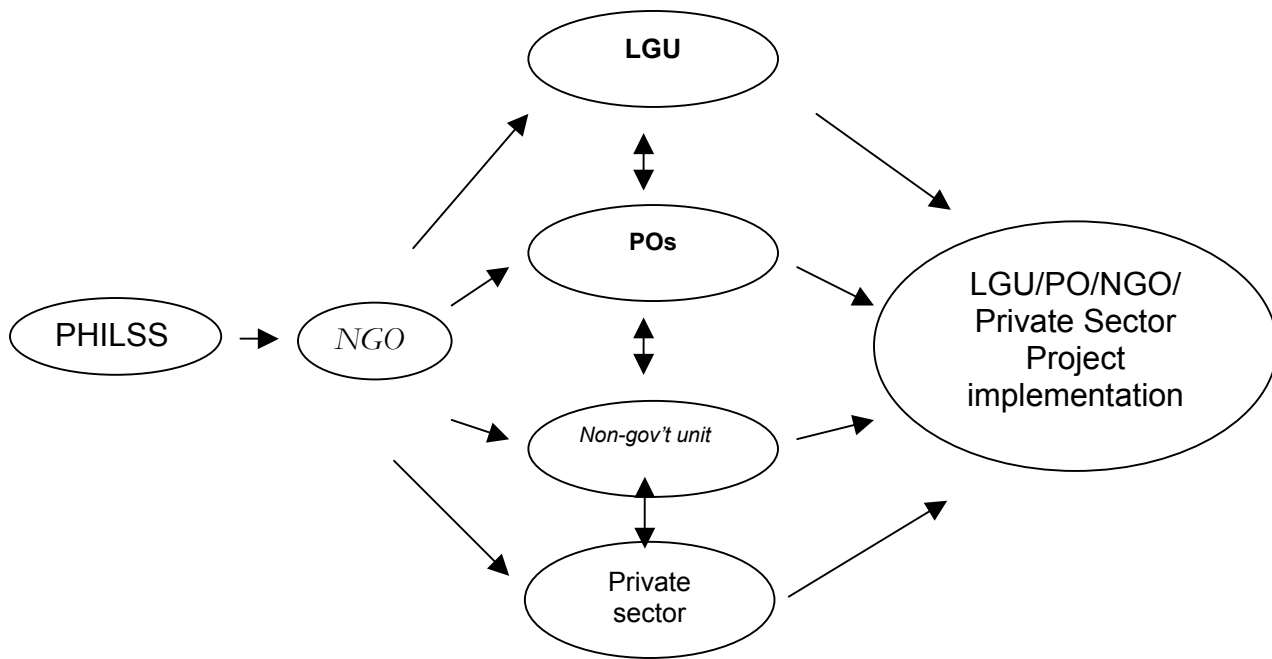


Diagram 1: Project implementation framework

The Department of Health's role, aside from conceptualizing the CPH project, included representing the government in signing the program contract with the NGO consortium, participating in the Joint Management Committee meetings to ensure that the project is being implemented, providing reports of fund disbursement and program information to the World Bank, and participating in the monitoring of CPH projects. The local government units (LGUs) participated in the approval of local NGO/PO partners, endorsed local NGO/PO subproject proposal of each local NGO or PO, designated the personnel responsible for the implementation of subproject activities, provided counterpart resources, technical inputs, and logistical support in the subproject implementation, participated in the monitoring and implementation of the subprojects, and facilitated health service delivery to beneficiaries referred by NGO partners in the project.

PHILSSA's role was multifaceted. It was involved in facilitating the partnerships between the local NGOs and the local government units, assisting local NGOs and POs in writing subproject proposals, monitoring the fund disbursement and operations at the local level, doing process documentation of the LGU-NGO-Community partnership, and monitoring and reporting of fund utilization and receipts.

The participant NGOs, people's organizations, and local partners acted as the proponents and implementors of the subprojects. They also participated in the assessment, planning,

implementation, monitoring, and evaluation of each subproject. After each project was completed, it was also their job to submit reports regarding the subprojects' achievements and financial reports to the secretariat.

The Joint Management Committee, which was composed of key players from the Department of Health, the NGO community, and the PO community, took over the direction and management of the program, the planning and implementation of all program components, and the establishment of the policies of the program. Specifically, it approved memorandum of agreements for subprojects and set up project policies, such as that which ensured equitable distribution of funding among cities and municipalities.

The diagram below shows the relationship of the different stakeholders during project implementation.

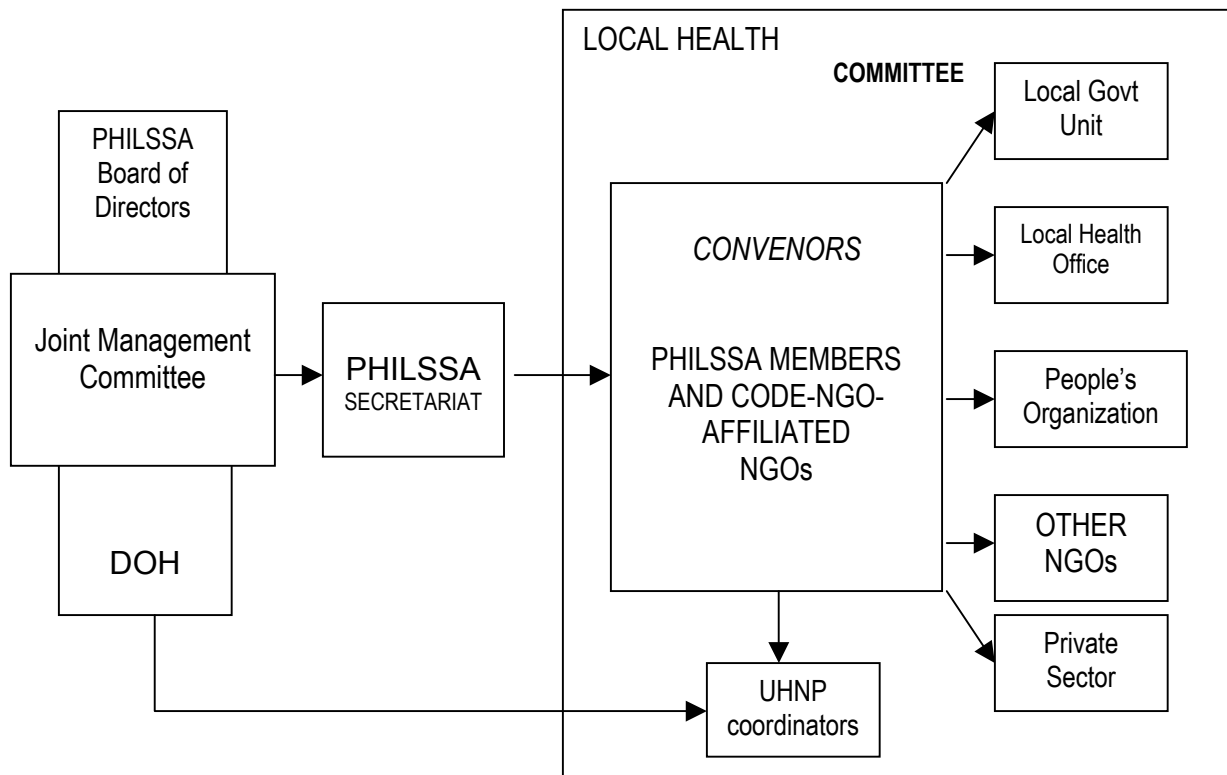


Diagram 2: Relationship of Stakeholders

Even before the contract with the DOH was signed, all the preparatory activities were conducted to ensure that the participating cities had formed the Local Health Committee (LHC). The convenors, NGOs who participated in the project, advanced their own resources to be able to do this. These convenors were identified through a democratic process of selection¹. Negotiations with the DOH started in November of 1999. The convenors were identified in January 2000. DOH committed that funds were to be released in May 2000. Proposals from the communities were solicited in advance and the LHC processed these and identified the projects that would be supported once the resources were released. Just four months before the project end, the first tranche of the funds were disbursed and since all systems were in place, simultaneous project implementation was undertaken.

The project was simultaneously conducted in 21 cities and municipalities in the National Capital Region, Metro Cebu, and Cagayan de Oro. NGO convenors, mostly PHILSSA NGO members, were mobilized to work with their respective local government units to create a Local Health Committee that could oversee the implementation of the project at the local level. CPH appraised and provided funding support for identified health needs of each community. The different stakeholders in the project worked together to achieve the project objectives.

Through this NGO-government tie-up Php28.6 million was disbursed and properly accounted. Funds were expected to be released in May 2000 for an eight months implementation period but these were made available only in September 2000. Even if funds were not available, PHILSSA and the convenors dove into the project in full mobilization and commitment mode. An operational manual was already in the works before the contract-signing. This defined the parameters and structures of the project. A series of orientation and capability-building activities were launched to push the process along. Regular monthly meetings were also scheduled in advance with the Joint Management Committee (the body responsible for the overall direction and management of the program) of CPH and the NGO convenors.

Outcome

Fifty-one health subprojects in various urban poor communities were given funding across 21 cities all over the country. Twenty-one of these projects were community health-related and thirty were environment health-related. Six capacity-building workshops were conducted, which were participated in by all the sub-grantees (sub project proponents).

Many benefited from the project including NGO convenors as well as proponent urban poor organizations and recipient communities. The gains were not simply material or physical resources² but enhanced knowledge on health care, addressed sanitation problems, enhanced project management and partnership-building skills, expanded networking with other organizations, and a developed sense of community.

All participating stakeholders learned many lessons from the Community Partnership for Health projects. These lessons include the factors that influenced the project outcome as well as factors that had adverse effects on the project. Factors that proved vital in facilitating the process include preparation and set up of structures and ties before actual project implementation; the interplay and complementation of various stakeholders with different expertise; the enthusiasm, openness, support, general cooperation, and commitment of various stakeholders and project implementors;

¹ All NGOs working in the 21 identified cities nationwide were called to a meeting and selected their convenor.

² PHILSSA received a service fee from the project, an amount enough to start its own endowment fund.

efficiency of the project secretariat; capacity of the POs to manage projects and to maximize resources; and enthusiastic acceptance of projects by communities.

Aside from these learnings, more significant lessons can be gleaned from the experience for NGOs who are into community development. First, in the presence of logistical problems, creativity and the ability to maximize resources prove to be very useful. Second, it is essential to develop a sense of common ownership of the project and a strong partnership among stakeholders during the implementation process. Third, patience and determination are important if one is given a short amount of time to implement a project. Fourth, partisan politics can be a significant hindering factor in the implementation of projects. Fifth, proper motivation and the extension of necessary assistance are crucial to the development of POs' capacity. Sixth, project management is a good litmus test for leadership capacity and transparency. And last, the success of promoting good health depends largely on the efforts of the people in the community.

**Global Trends in Financing the Social Sector:
How Successful Social Entrepreneurs Mobilize Resources
and Leverage their Ideas**

by Mirjam Schöning

Schwab Foundation for Social Entrepreneurship

(Switzerland)

Global Trends in Financing the Social Sector: How Successful Social Entrepreneurs Mobilize Resources and Leverage Their Ideas

by Mirjam Schöning

Mirjam Schöning was the first to join the Schwab Foundation for Social Entrepreneurship in August 2000 as Senior Project Manager. Currently she is a Director at the Foundation. She holds a Master in Business Administration from the University of St. Gallen, Switzerland, an International Business Diploma from ESADE, Spain and the Stockholm School of Economics, Sweden. She graduated as a Master in Public Administration from the Kennedy School of Government, Harvard University, in 2000, concentrating on development economics and finance. Her previous work experience includes three years at Bain & Company as a consultant, where she developed investment and growth strategies for leading international firms. In addition, she analyzed the social sector lending strategies in Southern Latin America for the World Bank, Washington, D.C. Her expertise and interests are in the areas of social entrepreneurship, microfinance, social investing and appraisal of development projects.

OVERVIEW

This paper will examine current global trends in financing social initiatives carried out by social entrepreneurs. From the outset, however, it is important to highlight that not all social entrepreneurs are legally constituted as not-for-profit organizations. A growing number have set themselves up as for-profit entities, but their shareholders agree that the profits be reinvested in continuing the organization's social purpose.

Three global trends emerge when analyzing how successful social entrepreneurs secure financing to sustain and expand their operations. In preparing this paper, I have drawn upon a sample of 80 leading social entrepreneurs¹ from around the world² This paper will examine each of those trends in three sections.

In Section 1, I will describe the current financial landscape for nonprofits, drawing especially on figures from the USA, with the caveat that it is in this country where the term “social entrepreneur” has been closely linked to the nonprofit sector. This is not the case in other parts of the world. The economic recession is taking its toll on the traditional sources of funds for nonprofits. In addition, the number of such organizations competing for funds has dramatically increased. It is therefore not surprising that the three trends outlined in sections 2-4 evolve around the topic of financing.

¹While a social entrepreneur might either choose a for-profit or a nonprofit legal structure, they set themselves apart from either one. They are also different from nonprofits simply adding a for-profit business to generate revenues. According to a widely accepted definition, social entrepreneurs....

- Adopt a mission to create and sustain social value (not just private value);
- Recognize and relentlessly pursue new opportunities;
- Engage in the process of continuous innovation, adaptation and learning;
- Act boldly without being limited by the resources currently in hand;
- Exhibit a heightened sense of accountability to the constituencies served and for the outcomes created.

(Dees, Gregory, Jed Emerson and Peter Economy: *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs*, Wiley, New York, 2001).

² The sample consists of “Outstanding Social Entrepreneurs”³ selected by the Schwab Foundation for Social Entrepreneurship as well as Ashoka Fellows, identified and supported by Ashoka, Innovators for the Public.

The first trend, discussed in Section 2, picks up on a number of strategies to mobilize resources. Some of these are new, others are established practice with a new spin, ranging from a variety of creative fundraising ideas to selling products and services, raising fees, and establishing partnerships with businesses and the public.

Section 3 describes how social entrepreneurs have been able to leverage and expand their ideas despite facing resource constraints. The different strategies here include franchise models, setting up a system of decentralized and independent nodes, and working with a large number of volunteers.

Finally, social entrepreneurs see the need to set themselves apart from the sea of nonprofit organizations. Thus, they are highly sensitive to the increasing pressure for more accountability and transparency (section 4). They know that successful organizations measure their impact and that donors and social investors increasingly allocate money to the accountable, high-impact social change organizations. A more transparent and objective “nonprofit” capital market is in the making.

1. THE CURRENT SITUATION: LESS FUNDS, MORE NONPROFITS AND THE “STUCK IN THE MIDDLE” PHENOMENON

“Funding Squeeze could Spell Shake-out for D.C. Nonprofits” (*Washington Post*, 23 April 2003). We have grown accustomed to headlines like these over the last three years and they are similar around the world. The global recession is taking its toll on the nonprofit sector. The stock-market downturn meant that the endowments of private foundations have decreased. In some cases, particularly where foundations are linked to technology or internet companies, the drop has been dramatic. The David and Lucile Packard Foundation had to scale back their giving and lay off staff. The Foundation, whose endowment peaked at more than \$15 billion in 2000 but is now less than \$5 billion, has announced cuts in its grantmaking by more than half, from \$450 million in 2001 to \$200 million in 2003 (*Philanthropy News Digest*, 12 December 2002).

In other cases, foundations and individual donors have responded to declining endowments and shrinking investment portfolios by stretching out grant payment schedules and reducing their charitable donations. The American Association of Fundraising Counsel estimates that total giving, when adjusted for inflation, was \$212 billion in 2001, down 2.3 % from the previous year. Corporate giving proved to be particularly volatile, falling by 14.5% during the same period.

While the overall figure on total giving in the USA seems very high, most of the money is concentrated and not accessible to nonprofits working on social change and with marginalized beneficiaries, which will be the focus of this paper. A large part of the total goes to cultural institutions and universities. More than \$1.9 billion went to 9/11 relief and recovery efforts. While international giving has been on the rise, it still only represented a minuscule 2% of total giving in 1998 (*The Council on Foundations, International Grantmaking*, 2001).

In addition to a decline in traditional sources of finance, the number of nonprofit organizations has dramatically increased. During the late 1990s, the new economy boom sparked new funds, new programs and ideas in the philanthropy sector. From 1994 to 1998, foundation and individual giving increased by more than 50% in the US. The number of nonprofit organizations grew in line with the increase in giving. The nonprofit sector in the United States grew by 74 percent over the last ten years, with the number of 501(c)(3) organizations increasing from 422,000 in 1987 to 734,000 in

1998 (*The Independent Sector Press Release, 19 July 2001*). Today's scenario displays a larger number of nonprofits competing for less available funds.

On the positive side, scarce resources have unleashed an astounding creativity to mobilize financial and in-kind resources among those organizations committed to have a positive social impact. One characteristic of a social entrepreneur is that they strive to become as self-sustaining as possible. Still, many of them depend on grants or loans for a part of their program. The irony is that for this portion it seems particularly difficult to raise funds. You can raise money for charity and you can obviously raise money for market rate financial returns, but it is hard to raise money for social ventures/enterprises “stuck in the middle.” Hence the even larger need for social entrepreneurs to be creative in sustaining their missions.

2. FINDING NEW WAYS TO MOBILIZE RESOURCES

2.1 Overview

The chart below gives an overview of different strategies social entrepreneurs are increasingly using to mobilize resources. The third column provides examples of different organizations employing the respective strategy.

Strategy	Variations	Examples ³
Sale of products and services	<ul style="list-style-type: none"> ▪ Mission related <ul style="list-style-type: none"> ▪ Beneficiaries are customers ▪ Export-oriented ▪ Not linked to the mission 	IRUPANA, Bolivia Project Impact, USA APAEB, Brazil Population and Development Association (PDA), Thailand
Fees/ cost recovery	<ul style="list-style-type: none"> ▪ Membership fees ▪ Licensing fees 	Self Employed Women's Association (SEWA), India All fairtrade/ Max Havelaar organizations Phulki, Bangladesh
In-kind resources	<ul style="list-style-type: none"> ▪ Goods for programs or operations ▪ Technical assistance and expertise ▪ Volunteers 	CDI, Brazil CHETNA, India Bily Kruh Bezpeci, Czech Republic CityYear, USA
Partnerships	<ul style="list-style-type: none"> ▪ With businesses ▪ With governments ▪ With local communities 	ASAFE, Cameroon Childline Foundation, India EcoClubes, Argentina
Raising funds from the public	<ul style="list-style-type: none"> ▪ Special events ▪ Additions to customer bills (hotel, electricity bill, cell phone bill, ...) 	Endeavor, USA Habitat for Humanity, USA

2.2 Sale of products and services

1) To “external “markets

A common way of raising funds for social entrepreneurs and nonprofits is through the sale of products and/or services. In most of the observed cases, the products and services were closely related to the mission of the organization. Social entrepreneurs are market oriented and constantly

³ See Appendix A for the profiles of the mentioned organizations.

search for products and services that can be produced by their beneficiaries and sold on the markets. Increasingly, social entrepreneurs are trying to export their goods to access higher prices in Europe or the USA. Connecting small producers to the global market is often challenging, but here are a number of successful examples:

- *Agricultural products*

A common way to support rural areas is to help small scale or other disenfranchised farmers in developing countries to promote their produce. IRUPANA works with more than 1700 indigenous farming families across Bolivia, buying coffee, honey and native grains such as quinoa and amaranth directly from them. IRUPANA processes them into marmalades, chocolate bars and cereals and sells them in its 18 stores and 300 outlets over the country. The profits are ploughed back to the indigenous communities. IRUPANA is increasingly exporting its organically certified products to Europe and the USA.

APAEB, the Small Farmers Association of Valente in Northeastern Brazil, is another interesting example. They have been able to cut out the middlemen, export directly and in addition move up the value chain. Instead of selling the sisal fibers to middlemen in their region like they did 20 years ago, the farmers collectively saved the money to finance exports directly. In 1990, they built a carpet factory. Now they export carpets at a much better price and invest the returns in schools and new business ideas.

- *Handicrafts*

Handicrafts are another very common product, which are either sold in local markets or exported. Bosnian Handicrafts, founded by Lejla Radonicic, in the wake of the Bosnian war, employs more than 500 women refugees both Christian and Muslims, Serbs and Croats, who experienced trauma during the war and lost family members. The women apply their knitting, embroidery and crochet skills to create products that are exported to Switzerland, Slovenia and the USA with the help of an Internet site.

- *Translation services*

ASAFE in Cameroon supports women entrepreneurs by providing them access to technologies. Over the Internet, ASAFE members have been able to sell more than US\$ 8000 each month in translation services to the United States and other parts of the world.

- *Restaurants and Resorts*

“Condoms and Cabbages” restaurants were the brainchild of Mechai Viravaidya, founder and Chair of the Population and Development Association (PDA) in Thailand. In 1970, PDA started with a strong focus on family planning. Viravaidya and his supporters promoted condoms and other family planning methods through humor and a new, community based, distribution system. When AIDS hit Thailand in the 1990s, PDA built on its earlier expertise to promote safer sex. The restaurants and resorts spearheaded by PDA take advantage of the large number of tourists in Thailand. In addition to making significant profits, the restaurants familiarize visitors with PDAs programs in humorous ways, displaying condom flowers and handing out condoms instead of mints with the bill.

Many social entrepreneurs purposely target low-income customers with their services and products. They adapt them so that they suit the needs and pockets of those they are trying to serve. A typical example is the microfinance sector. Microfinance institutions offer very small credits at rates that are

affordable to the poor and yet cover the operational costs of the institution. In other cases, suppliers have sophisticated sliding price schemes to enable them to provide their products below cost to their target group, regaining the same amount from richer customers. Examples of products sold to low-income groups are:

- *Medical supplies*

David Green has been very successful in bringing low-cost health products such as cataract implant (intra-ocular) lenses and surgical sutures to millions of people in the developing world. Currently he is focusing on manufacturing and sales of affordable hearing aids. These products are sold at a fraction of their current price, because Green has been able to significantly reduce the production costs without compromising quality. Additionally, he has introduced a new pricing system based on the customer's capacity to pay. The poorest customers receive the products for free; high-income customers pay above cost, but still significantly less than the competitor's prices.

- *Organic Waste/ Compost*

Waste Concern is fighting the mountains of garbage in Dhaka, Bangladesh. The two founders discovered that 80% of the waste in the city is organic and can be recycled. They started a waste collection system in low-income neighborhoods and slums. After convincing their constituents that the system worked, people were ready to pay a price for this service. The organic waste is turned into compost and sold to one of the largest fertilizer companies in the country. They process the compost into an organic fertilizer and sell it at a very low cost, but still profitable, to farmers in the countryside. The farmers benefit from a fertilizer that is cheaper than chemical ones, gives higher yields and is environmentally friendly.

2.3 Collecting fees

1) Membership fees

Social entrepreneurs strongly believe that they need to submit their services to the market test. The poor might not be able to pay large sums, but they do pay for essential services and products. Therefore, a test to see if an organization truly adds value is to ask for a membership fee. The Self-Employed Women's Association in India (SEWA) is a trade union for women working as vendors, artisans, salt workers or in other areas on their own account. SEWA fights for the rights of these women and offers services ranging from health care to microcredit and insurance. SEWA asks for a small fee from all its members. Currently, SEWA has over half a million paying members.

2) Licensing /Labeling Fees

FairTrade organizations such as Max Havelaar in Switzerland or TransfairUSA derive an income from licensing the Fair Trade labels to coffee roasters and producers of tea, rice, bananas and honey. The producers are allowed to use the Fair Trade labels if the products meet the labeling criteria of minimum prizes to the small scale producers in developing countries. An increasing number of developing country products receive organic or Fair Trade labels (i.e. cotton, clothes, timber, carpets). At the same time consumer awareness to search for these labels is increasing.

2.4 Raising in-kind resources

1) Goods for programs or operations

For many corporations it is easier to donate their products than a percentage of their profits. Consequently, a number of social entrepreneurs realized that it is easier to raise in-kind than financial contributions. Clothing drives are a well-known form of in-kind donations and two

organizations in New York, Dress for Success and Career Gear, collect suits and business attire to outfit members of disadvantaged population groups going for job interviews. A similar example involves companies that discard fully functional computers. Organizations such as Computer Exchange collect these computers and ship them to customers in developing countries, where they help bridge the digital divide. Comitê para Democratização da Informática (CDI), for example, has started more than 700 computer schools in the slums of Brazil and other Latin American countries. Disadvantaged youth learn essential computer skills combined with citizenship education.

Another example is CHETNA, an Indian organization dedicated to health education and nutrition, which was looking for ways to reduce its operational costs. The founder, Indu Kapoor, learned that a local heiress had left instructions in her will to donate one of her buildings to an organization pursuing the betterment of women and children. CHETNA was able to secure the building and, subsequently, two more, thus significantly reducing its operational costs.

2) Technical Assistance

Many professionals are interested in dedicating part of their time to provide qualified assistance to a social cause. Yet nonprofit organizations are increasingly becoming more meticulous in choosing the right people. Bily Kruh Bezpeci, for example, offers comprehensive counseling and aftercare for the victims of violent crime. Because the quality of their professional volunteers determines their reputation and further success, they target trained psychologists and lawyers to help them deliver their services.

3) Volunteers

Not all volunteers need to be highly skilled. CityYear, based in Boston, USA, takes in thousands of teenagers and adolescents from all backgrounds who are willing to give one year to the community after they complete high school. Each of its teams spends ten months running after-school programs, building community gardens, working in homeless shelters or helping the elderly.

2.5 Partnerships

1) Partnerships with Governments

Partnerships are increasingly an important cornerstone for social entrepreneurs. A few see their governments as important partners. If a service is fully endorsed by the government, the disadvantages of dealing with a more rigid bureaucracy might be outweighed by the advantage of rolling out a program nationwide. One such example is Childline India Foundation (CFI), which started to provide a free telephone service for children in the slums and on the streets of Bombay. CFI convinced the government that it was providing a service to deprived children that the government had promised but failed to deliver. By funding CFI, the government could deliver on its promise.

2) Partnerships with Businesses

Partnerships of all kinds with corporations are dramatically gaining in popularity and importance among social entrepreneurs. Currently, a surprising amount of corporate giving is not aligned with the core values and capabilities of a company, but rather reflect the CEO's personal interests. As CEOs or the business environment change, the commitments alter. The more stable and promising partnerships between corporations and social entrepreneurs clearly are the ones that build around the core business of the company. ASAFE in Cameroon supports women entrepreneurs in 8 African countries and links their businesses through technology. ASAFE developed the leading e-commerce web portal for businesswomen exporting products such as crafts and dried fruits. ASAFE has a major partnership with CISCO to provide large computer networking training to its members.

ASAFE and CISCO are jointly working together to provide new income opportunities for marginalized women in Africa, while possibly developing future customers as well.

3) Partnerships with the Local Communities

For most social entrepreneurs, acceptance in the local communities is the key driver to sustainable change. Once the community accepts the organization, it is often willing to sustain it. One example is the more than 200 EcoClubs that exist in Latin America and now in Spain. Each EcoClub is largely independent and started by a local group of students to educate the general public about improved treatment of household waste, wildlife protection, alternative energy sources or organic gardening. The Ecoclubs engage the local church groups, fire departments, universities and municipal authorities. Through their extensive interaction with these groups, each EcoClub is able to raise its funds locally.

2.6 Creative fundraising from the public

Social investors and donors want high performing social enterprises and nonprofits. However, they are reluctant to channel funds to support core funds that will allow these organizations to deliver quality goods and services to the poor and excluded. This paradox has led some organizations to revert to unconventional and entertaining fundraising events to access new sources. Such events can include galas with special guests (for example Endeavor Global), concerts or golf tournaments where each hole is sponsored and a few reserved to raise the attention for the social project. “Futbol de las Estrellas” (Soccer of the Stars) is a popular match of movie stars, singers and soccer stars in Argentina started by Victoria Shocron to support a cultural center for young people with disabilities. The key success factor is to catch the target audience in their familiar environment and without asking them to give up free time.

Some nonprofits have been able to negotiate with companies that they can add a small amount to hotel, cell phone or other bills, which will go to the organization. If you spend a night in a Marriott Hotel in Central America, for example, one dollar per night will be added to your bill and given to Habitat For Humanity, unless you explicitly instruct the hotel to do otherwise.

3. EXPANDING DESPITE RESOURCE RESTRAINTS

The quality of entrepreneurship – both social and business – is manifest in their relentless desire to expand their approach to other beneficiaries and settings. Expansions into new areas or even countries typically require capital and human resources, which are chronically in shortage. But social entrepreneurs have found models for expanding and leveraging their ideas without necessarily investing large sums. Three of these strategies are described below:

3.1 Franchise Models

In 1995, the Comitê para Democratização da Informática (CDI), or the “Committee to Democratize Information Technology,” had one computer school in a favela of Rio de Janeiro. By the Spring of 2003, CDI comprised more than 700 computer schools in various Latin American countries. The rapid expansion was only possible through a franchise concept. Each community interested in starting a school must demonstrate local demand, including finding volunteers and the physical infrastructure. They have to produce a business plan to ensure financial sustainability, which includes fees from students. CDI provides the technical equipment, the teaching material and sets the standards for running the schools. Through this system, CDI is able to spread information technology cost-effectively without placing a financial burden on itself.

3.2 Decentralized Nodes / System of Affiliates

The system of setting up decentralized nodes each responsible for its own fundraising, is similar to the franchising concept, but leaves more room for local adaptations. The different affiliates operate within a set frame provided by the central organization. Usually a new node is only set up after enough local demand and support is voiced. Endeavor follows such a model. It is a non-profit “venture catalyst,” offering multi-pronged support to promising business entrepreneurs in Latin America. Endeavor promotes entrepreneurship as a means to stimulate growth and employment in emerging markets. Endeavor Global – its hub – is based in New York to keep close connections with venture capitalists and other supporters of entrepreneurs. Endeavor affiliates have been established in Argentina, Mexico, Brazil, Chile and Uruguay. Endeavor only starts an affiliate after the local business community has raised \$2 million to support the local operations. The local business community offers connections and advise to entrepreneurs selected by Endeavor, thus building a culture of nurturing entrepreneurship, which is new to most of these environments.

3.3 Partnerships

Childline India Foundation (see above) convinced the government that Childline could deliver services for children the public sector should provide. As a result, with the Ministry’s backing and financial support, Childline expanded to over 40 Indian cities in the time span of four years.

4. INCREASING TRANSPARENCY AND MEASURING IMPACT

A third tendency that will only be mentioned briefly is that successful social entrepreneurs embrace the need for more transparency and accountability instead of simply saying that they do good for society, period. Social entrepreneurs want to set themselves apart from organizations that are less able to deliver on their promises and are embracing the development of metrics to measure their performance or social impact. Donors and social investors are becoming more sophisticated and demand clear accounts and evidence on the breadth and depth of the social impact. Single storytelling and fundraising based on “politics, perception and persuasion” will hopefully soon be a phenomenon of the past.

One cannot diminish the challenge that metrics and measurement present. The irony is that both the corporate and the social sector are being squeezed to demonstrate the impact of their activities on society. In that sense, they have much to learn from one another. The corporate sector can help social entrepreneurs think through how their work translates into financial returns for the communities they serve. Conversely, social entrepreneurs can sensitize the corporate sector about the social repercussions inherent in being driven solely by the financial bottom line. This ever-growing interdependency between the business and the social entrepreneurs holds great promise for building the public trust that transparency and accountability brings to both.

**Unique and Universal: Lessons from the Emerging Field of
Social Enterprise in Emerging Market Countries**

by Nicole Etchart and Lee Davis

Non-Profit Enterprise and Self-sustainability Team (NESsT)

(Chile)

Unique and Universal: Lessons from the Emerging Field of Social Enterprise in Emerging Market Countries¹

by Nicole Etchart and Lee Davis

Nicole Etchart is a Co-Founder and CEO of NESsT (www.nesst.org), an international organization dedicated to supporting social enterprise in emerging market countries, particularly through the NESsT Venture Fund, a philanthropic investment fund supporting a portfolio of social enterprises in Central/Eastern Europe and Latin America. Along with NESsT partner Lee Davis, Nicole is co-author of several books and publications on social enterprise and venture philanthropy, including Get Ready, Get Set: Starting Down the Road to Self-Financing (Santiago 2003) and Profits for Nonprofits (Budapest, 1999). She is currently editing NESsT's forthcoming book Risky Business: The Impacts of Merging Mission and Market—the results of a multi-year research effort to document the effects of social enterprise on some 50 nonprofits from 15 countries. Nicole has over twenty years experience in international development, nonprofit management and civil society development, holding executive positions with international organizations working in the USA, Africa, Asia and Latin America. Ms. Etchart holds an M.A. from the Johns Hopkins Nitzze School of Advanced International Studies (SAIS) and a B.A., magna cum laude, Phi Beta Kappa from Tulane University. She was born and currently lives in Santiago, Chile.

Lee Davis also is a Co-Founder and CEO of NESsT. In addition to the books and publications he has co-authored with NESsT partner Nicole Etchart, he is currently editing NESsT's forthcoming book Not Only For Profit: Innovative Mechanisms for Philanthropic Investment—an analysis of innovative investment mechanisms for supporting social enterprise. In 1996-97, he authored The NGO-Business Hybrid, a seminal study on nonprofit enterprise activities in 13 countries, while a Research Fellow at Johns Hopkins SAIS where he also served as a Professorial Lecturer in Social Change and Development, developing and co-teaching the first graduate-level course on social enterprise in the developing world. Mr. Davis holds an M.A. from Johns Hopkins, and a B.A., magna cum laude, Phi Beta Kappa from Connecticut College. He was a recipient of the prestigious Thomas J. Watson Foundation fellowship in 1988-89. He was born in New York and currently divides his time between NESsT's offices in Chile, Hungary and the USA.

ABSTRACT

This paper aims to spur discussion by providing a brief overview of the emergence of the social enterprise² field in emerging market countries derived from the practical experiences of NESsT (www.nesst.org) in supporting social enterprises throughout Central and Eastern Europe and Latin America over the last seven years. The paper raises some of the key lessons and observations learned from operating a philanthropic investment fund – the NESsT Venture Fund – to support social enterprises in the emerging market context. It outlines some of the opportunities and challenges this strategy has presented in fostering social change through social enterprise development. The paper is divided into three sections outlining the context/rationale for, key obstacles and opportunities for, and key lessons learned from social enterprise development. The paper illustrates that while the cultural and regulatory context of social enterprise may be unique among various countries or regions, many of the very practical, management challenges faced by social enterprise managers are universal.

¹ This paper was prepared for the Alcoa Foundation's Social Venture/Enterprise Initiative International Forum (Racine, Wisconsin: June 19-21, 2003) drawing heavily from other existing NESsT publications, including: Profits for Nonprofits: An Assessment of the Challenges in NGO Self-Financing (Budapest, 1999), the NGO-Business Hybrid (Washington, DC: 1997), and Risky Business: The Impacts of Merging Mission and Market (Santiago: forthcoming 2003).

² NESsT uses the term “social enterprise” to refer to the myriad of entrepreneurial or “self-financing” strategies (i.e., commercial or entrepreneurial approaches, such as the sale of products or services, investments or other business activities) used by nonprofit organizations to generate some of their own income in support of their mission.

1. A CONTEXT AND RATIONALE FOR SOCIAL ENTERPRISE IN EMERGING MARKET COUNTRIES

As both the number and size of nonprofit, civil society organizations (CSOs)³ in emerging market countries and the “developing world” increase, and CSOs begin to professionalize, expand and diversify their activities, there is an increasingly urgent need to address the very basic question of how to financially sustain their valuable efforts. The question of how to achieve “sustainable” CSO financing has always confounded CSO professionals, fundraisers, donors and policy analysts. It represents perhaps the single greatest obstacle for the “nonprofit” sector. CSOs are eternally faced with the limitations of public and private philanthropy and the limitations of both their institutional form and capacity to gain access to adequate resources. The problem becomes particularly critical if one considers the fundamental role that CSOs play in the democratization process in the emerging democracies of the developing world. As countries move to consolidate their democracies, CSOs are central to the representative and distributive goals held by democratic regimes. The need to strengthen and sustain them becomes key, therefore, to these consolidation efforts.

Historically, many CSOs in the developing world have been sustained (or even established) with international donor assistance funds. During the decades of authoritarianism in Central & Eastern Europe and Latin America, for example, local CSOs emerged as partners of foreign governments, international private foundations and international organizations, oftentimes as independent voices of change and solidarity against repression or political persecution. Many succeeded to formulate projects, account for their finances and serve as a conduit for international funding to support the work of grassroots organizations, “solidarity” movements and other civil or human rights groups. However, little if any attention was given to the financial sustainability of these efforts. Today, the situation is exacerbated as some foreign governments, and private funding institutions have begun to reduce – or altogether eliminate – their foreign assistance to certain countries/regions. Most particularly in the “more developed” (i.e., “emerging market” or “second world”) countries of Central & Eastern Europe and Latin America, commitments of resources for CSOs are waning. In other countries of the “developing world” (i.e. “third world” countries of Africa, Asia and parts of South America) foreign support continues to play an active role. However, even when combined with limited local charitable giving, these international funds still remain insufficient to meet growing needs. One operating assumption of many donors working in the international arena has been that country indicators of economic “progress” (e.g., gross domestic product, etc.) translate into increased philanthropic support for the nonprofit sector. This assumption is categorically false. And yet, many international donors have “exited” some of the “wealthiest” countries of the developing world and left behind a vacuum of funding that has left a fledgling nonprofit sector under-resourced and vulnerable.

The types of resources that are typically available in the current “nonprofit financial market” for CSOs in the emerging market/developing world are limited in three primary ways:

- *Limited Availability of Resources:* Typically, the support provided by international donors and international intermediaries accounts for the single largest source of CSO funding in the developing world overall when compared with support from national private donations,

³ NESST uses the term “civil society organization” (CSO) here refers to the wide diversity of not-for-profit, non-state organizations as well as community-based associations and groups which fall outside the sphere of the government and business sectors. These organizations are often also referred to as “nonprofit organizations,” “nongovernmental organizations (NGOs),” “charities,” “voluntary organisations,” etc.

membership dues, government grants, fees for services, etc. This support is diminishing and shifting toward other regions of the world. Meanwhile, the domestic sources of funding for the nonprofit sector in many countries, whether from state or private sector sources, public charitable giving or locally-based, endowed philanthropies, have not yet developed to a level sufficient enough to meet demand.

- *Limiting Restrictions on Existing Resources:* CSOs in the developing world have historically faced an additional limitation in donor, project-based funding. Many of the resources from abroad that have and do find their way to local CSOs are often made available only for prescribed themes or restricted only to project-related expenses. This leaves little opportunity for CSOs to find adequate support for their on-going operational expenses. Project-based funding has had a dramatic effect on the institutional capacity of CSOs. It has led to uncertainty and inconsistency in the activities of many CSOs, limiting the long-term impact of their work and their ability to think and plan strategically.
- *Limited Duration of Resources:* Time restrictions are also placed on most grants from donors to CSOs due to donor-defined project cycles (typically of 1-3 years). The short-term nature of most funding contributes to CSOs' inability to plan long-term strategies and sustain donor-funding projects beyond a terminal project cycle.

The withdrawal of many international foundations and agencies from countries in Central/Eastern Europe and Latin America, for example, coupled with the continued focus of many on project-based funding, have left CSO leaders searching for alternatives. Efforts to assist CSOs to achieve greater financial sustainability have typically relied on educating CSOs to diversify their donor resources and decrease dependency on any single donor. Many CSOs are forced to "go where the money is," however, regardless of whether the project priorities identified by a perspective donor fit the CSO's long-term strategic plans. This approach has led CSOs into an endless cycle of resource dependency. Mounting frustration with the current funding status quo has increased attention among developing world practitioners, donors and others to the concept of "social enterprise." Over the last decade, interest has increased among CSO leaders to find the means of strengthening their own capacity to generate new sustainable sources of revenues for their work. They believe that local philanthropy, albeit very important, will not alone solve the sector's financial problems since it is a long time in coming, and tends to focus on certain types of activities and programs.

Since 1997, NESsT has been at the forefront of efforts to increase awareness of and methods of support for social enterprises in the developing world. What has become evidently clear is that while the term "social enterprise" may be relatively new in the developing world context, the practice of "earned income" or "self-financing" has been an on-going practice for years. In fact, some of the most innovative and entrepreneurial cases of social enterprise can be attributed to nonprofit organizations operating under some of the most dire circumstances. In NESsT's experience, small social change CSOs from all fields across Central/Eastern Europe and Latin America, have employed innovative, entrepreneurial approaches to generating income for their work:

- **Environmental CSOs** employ creative and potentially lucrative "eco-enterprises" to both further their mission and generate surplus income. Open Garden Foundation (Gondollo, Hungary) operates a home-delivery organic food service to finance its sustainable agriculture and education programs;
- **Social welfare CSOs** like Betlem and P-Centrum in Czech Republic are operating businesses to generate revenues and/or to employ their constituents. Betlem operates a

construction company as a means of financing its support to the severely mentally and physically disabled. P-Centrum operates a wood-working shop as a means of creating job training and employment opportunities for at-risk youth while also financing other outreach programs to support the youth, many of whom are overcoming severe drug additions.

- **Cultural CSOs** too, organizations like Tamizdat (Prague, Czech Republic), have turned to self-financing strategies to finance their work in alternative culture. Tamizdat operates an on-line CD store, selling music from Central & Eastern European artists as a means of maintaining a more independent, pluralistic voice in society.
- **Community/Rural development CSOs** like Vydra (Cierny Balog, Slovakia) and CIEM Aconcagua (San Felipe, Chile) have also succeeded to increase local employment opportunities and increase tourism, while generating significant income and furthering their missions. Vydra has opened a restaurant catering to tourists visiting a nearby forestry museum as one way of financing its rural development programs while also promoting local cuisine and customs. Similarly, CIEM operates a café, gallery, cinema and printing company to generate income in support of its programs to promote local culture, education, environmental conservation, and employment in the region.

These are just a few of the many examples of creative social enterprises from emerging market regions, confirming that many – even very small nonprofit organizations – have already succeeded to use entrepreneurial strategies both to generate income and to further their mission.⁴ These, and many other cases like them, illustrate that – when used effectively and responsibly – social enterprise can provide significant benefits to parent nonprofits. Some of the many benefits articulated and illustrated by social enterprises in the emerging market world, include: increased income; diversified funding base; greater flexibility in allocating income; improved organizational planning, management and efficiency; improved financial discipline and oversight; increased and improved benefits for stakeholders; improved relations with philanthropic donors; and increased self-confidence and greater value placed on work.

However, social enterprise is not the panacea nor is it possible to derive an equation for success or a formula for replicating positive experiences among other CSOs of diverse experience, stages of development, etc. in the developing world. The NESsT experience of supporting social enterprises in Central & Eastern Europe and Latin America since 1997 has illustrated significant challenges for social enterprise practitioners at all stages of enterprise development.

⁴ See other NESsT publications, including *Profits for Nonprofits*, the *NGO-Business Hybrid*, *Risky Business*, and the NESsT Case Study Series for further case examples of social enterprise in emerging market countries.

2. KEY OBSTACLES AND OPPORTUNITIES FOR SOCIAL ENTERPRISE IN EMERGING MARKET COUNTRIES

In 1997, NESsT launched an effort to document the experience of social enterprise among small, social change organizations in emerging market countries to determine the primary obstacles they faced in enterprise development and to define a strategy for supporting such entrepreneurs. After documenting more than 100 practical examples, NESsT synthesized the key obstacles into two main categories: “internal” (i.e., those related to the management of human and financial resources and organizational capacity) and “external” (i.e., those related to the surrounding policy, regulatory, and general public environment in which the organizations function).

2.1 Internal Obstacles

Many of the key challenges emerging market CSOs face in operating social enterprises arise regarding support and commitment within the organizations themselves:

2.1.1 Conflict between mission-related and profit-making “cultures”: One common internal obstacle among social enterprise cases is the philosophical clash between non-profit and for-profit cultures. Many CSO staff possess a set of values and principles which may be fundamentally at odds with an entrepreneurial approach. Many who have chosen careers in development or social change have done so for the purpose of linking their work to a “greater good.” Accepting private sector, market-oriented approaches to generating CSO resources may therefore seem simply unethical – the veritable antithesis of CSO values. The introduction of formal corporate management styles into a CSO for the purpose of maximizing profits through greater efficiency may not only disengage the CSO and its staff philosophically from their organizational vision but, on a very practical level, may also lead to an irreconcilable contradiction between two organizational objectives: mission and resource generation. This is particularly an obstacle for those who maintain that reliance on the market is the cause, not the solution, of global inequity.

2.1.2 Lack of business planning and/or management experience: It is more an exception than common that CSO practitioners in emerging market countries have business expertise. As a result, the majority of social enterprises suffer from a lack of sufficient preparation and planning; insufficient knowledge of a particular market or industry; difficulties with product development, pricing, marketing, and competition.

2.1.3 Insufficient organizational/ staff capacity: Lack of sufficient human and organizational resources also impedes the social enterprise efforts of many CSOs. New social enterprise burdens are foisted onto already overworked CSO staff or volunteers; internal financial management systems are often inadequate; and CSOs find it difficult to attract and retain qualified staff or to access outside expertise. Meanwhile, while the social change field often attracts creative and strategic thinkers, and natural and dynamic leaders who found new CSOs, develop and implement new programs, services and problem-solving approaches, and empower and organize individuals and communities, they are not necessarily motivated or skilled in enterprise development and/or management.

2.2 External Obstacles

The challenge of undertaking social enterprise in emerging market countries also requires coping with a number of key potential external obstacles, realities and threats:

2.2.1 Access to start-up and/or working capital: Almost unanimous among CSOs operating social enterprises in emerging markets is the concern about “undercapitalization.” Financial limitations

hinder the efforts of many social enterprises to take their activities beyond the start-up stage and to stabilize, expand and diversify. Prior to launching their enterprises or in the process of expanding an existing enterprise, many CSOs lack the seed capital required to even sufficiently research and develop their ideas. Furthermore, due to their limitations in their legal status, lack of assets/collateral or credit history, CSOs typically do not have access to mainstream capital resources – whether for start-up, expansion, cash flow or to simply compete with better-financed competitors. Instead, they rely heavily on piecemeal strategies such as gathering resources from individuals within or close to the organization or diverting other project-related funds.

2.2.2. Unclear regulatory (legal/tax) environment: While the legal environment varies from country to country, a general lack of clarity in the law about the legality and tax treatment of CSO economic/commercial activities in emerging market countries results in a variety of practical and ethical challenges for many CSOs. Even those CSOs with the best of intentions find insufficient, inconsistent or inaccurate information, burdensome reporting requirements, and typically inadequate tax incentives for social enterprise. Furthermore, the lack of clarity in the law presents ethical dilemmas for CSOs as they struggle to promote and preserve a reputation of transparency and accountability to their constituents, donors and the public-at-large while also trying to identify for themselves the most favorable tax treatment for their social enterprise activity.

2.2.3 Ambivalent or negative public perception: In addition to the ethical dilemmas mentioned above, CSOs in the developing world face the added challenge of effectively communicating their motivations and goals for employing entrepreneurial activities while maintaining their nonprofit organizational status. Many CSOs in emerging market countries find that the public response to social enterprise can be at best ambivalent or skeptical public perception and at worst negative and potentially damaging. CSOs must work hard to maintain the public's trust and ensure transparency regarding the use of income from enterprise activities. This has implications not only for preserving the individual organization's reputation but also the perception of the nonprofit sector at large.

3. KEY LESSONS LEARNED IN SUPPORTING SOCIAL ENTERPRISE IN EMERGING MARKET COUNTRIES

Perhaps the greatest lesson to be drawn from assessing cases of social enterprise from emerging market countries is that while the **name** may be, the **concept** of social enterprise is not new. The main problem is that most CSOs are developing their social enterprises in relatively ad hoc ways with little to no previous experience, planning or support to help them flourish and/or avoid some of the pitfalls of their peers. As a result, NESsT launched its two regional offices in Budapest, Hungary (1997) and in Santiago, Chile (1999) in an effort to increase awareness of the opportunities and pitfalls of social enterprise strategies in emerging market countries and to develop strategies and tools for building both the organizational and financial capacity of local social enterprises. NESsT has applied a three-legged strategy in its work:

3.1 Action Research: to document case studies of experiences/obstacles from existing local social enterprises; produce local legal guides on social enterprise by assessing the local regulatory environment for social enterprise, including the legal and tax policies in place at local and national levels that regulate the commercial/economic activities of CSOs; assess existing models of support available for for-profit, small business entrepreneurs in each country to assess the usefulness of such models for supporting CSO self-financing initiatives; and widely disseminating lessons by publishing local-language reports and by organizing local forums/workshops for stakeholders from all sectors.⁵

⁵ See “Furthering the Field” link on the NESsT website (www.nesst.org) for more information.

3.2 Products and Services Development: to develop the products and services needed by local CSOs to assist them to initiate or expand social enterprises, including: capacity-building tools (e.g., handbook, code of ethics) and services (e.g., training module and consulting strategy) for assisting social enterprise managers in emerging market countries.⁶

3.3 On-going Capacity Building and Venture Financing Support: to provide ongoing financing and capacity-building assistance needed by local CSOs to develop their social enterprises effectively and responsibly. In 2000, NESsT developed the working plan, structure and initial financing for an innovative, alternative investment mechanism to support social enterprise in the emerging market countries of Central & Eastern Europe and Latin America. Based on the principles of long-term investment and venture capital from the private sector, the NESsT Venture Fund (NVF) “invests” in a small “portfolio” of social enterprises over a multi-year period to help them start-up or expand. Moreover, the NVF provides capacity-building assistance to help “incubate” and mentor the social enterprises.⁷

The NESsT Venture Fund model consists of two components that run simultaneously and parallel to one another:

<p style="text-align: center;">CAPACITY-BUILDING</p> <p>(Goal: To build the leadership and institutional capacity of CSOs to implement social enterprise strategies effectively)</p>	<p style="text-align: center;">CAPITAL INVESTMENTS (VENTURE FINANCING)</p> <p>(Goal: To provide access to partial financial resources for CSOs to start-up or expand social enterprises)</p>
<p>Assumption: Without sufficient capacity and skills, CSOs cannot efficiently manage social enterprises and could potentially threaten their mission-related activities.</p> <p>Strategy: Provide multi-year, targeted and tailored capacity-building and consultation support to a portfolio of social enterprises to build their expertise, skills and knowledge of enterprise development and management.</p>	<p>Assumption: CSOs lack access to mainstream financing sources to capitalize their social enterprises. Without such support, social enterprises will fail.</p> <p>Strategy: Provide a multi-year, targeted and tailored package of financing to a portfolio of social enterprises to capitalize their start-up and growth.</p>

The strategy developed by NESsT responds directly to the internal/external challenges outlined above (Section 2). In implementing this strategy over the last three years that the NESsT Venture Fund has operated, NESsT has learned some key lessons about supporting social enterprises in emerging market countries:

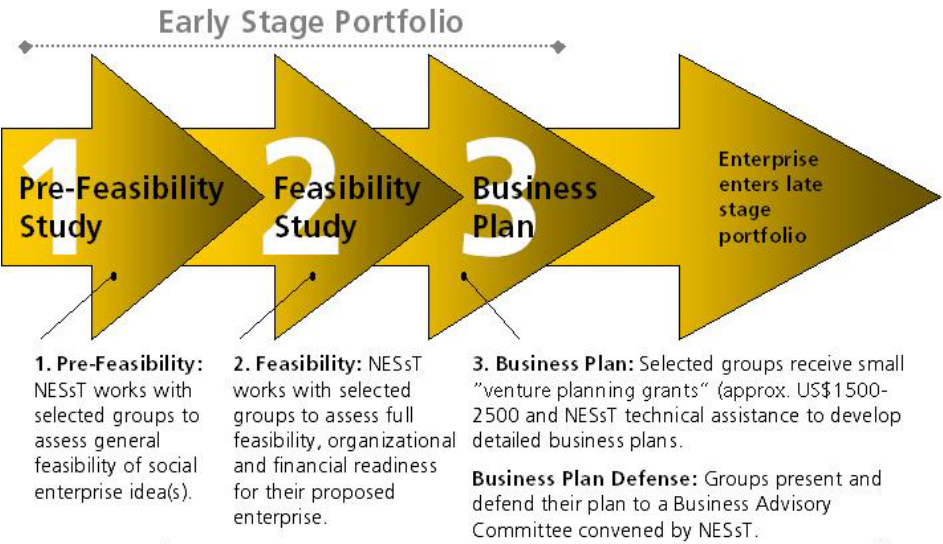
⁶ See the “NESsT Publications” link on the NESsT website (www.nesst.org) for more information about the NESsT “Tools for Practitioners Series” including the handbook on social enterprise, *Get Ready, Get Set: Starting Down the Road to Self-Financing* and the code of ethics on social enterprise, *Commitment to Integrity: Guiding Principles for Nonprofits in the Marketplace*.

⁷ See “NESsT Venture Fund” link on the NESsT website (www.nesst.org) for more information.

Tools and strategies of support need to be tailored to the local realities and specific needs of social enterprises at various stages of the enterprise development process.

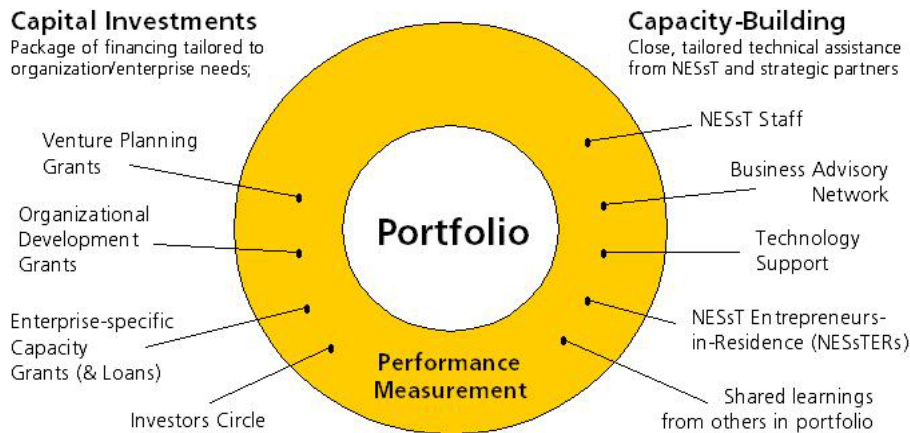
Both in terms of the tools we develop and the process for providing support, NESsT has learned that flexibility and adaptability to local realities is paramount. While materials and case stories from abroad may stimulate creative thinking, pointing to local lessons that function within the same realities is far more relevant and valuable for local social enterprise leaders. “That may work in New York, but it won’t work here” is a commonly-sited concern – and despite the fact that many of the management challenges social enterprise managers face are universal the world over, pointing to local cases is a far more powerful lesson. Adaptation and production of local-language versions of many of NESsT’s tools, including local case examples, has been one important part of this strategy. Clearly when it comes to particular regulatory (legal and tax) issues related to social enterprise, information and support need be completely local in order to be at all relevant – the NESsT Legal Series is one example of this.⁸ Moreover, NESsT has learned that pre-defined timelines for supporting social enterprises do not recognize the very different needs, realities and stages of development of different CSOs. Therefore, we have evolved our support for two types of social enterprise portfolios: “early stage” and “later stage”:

- *early stage portfolio:* The “early stage portfolio” of the NESsT Venture Fund receives assistance from NESsT through a three-stage process of pre-feasibility, feasibility study and business plan development for social enterprise ideas:



⁸ The NESsT Legal Series consists of country-specific guides to help CSOs understand the legal/regulatory framework for social enterprise in their country: how such activities will affect their nonprofit status, how such income should be reported or how it is taxed. With extensive input from lawyers, accountants, nonprofit practitioners, tax specialists and others, the guides provide an assessment of: 1) what the current law states about CSO commercial activities; 2) how the current law is/has been interpreted; 3) effects of the law on the nonprofit sector; and 4) recommendations for improving the law.

- *later-stage portfolio*: “Later-stage” portfolio members, those more “advanced” in the enterprise development process, receive an individually-tailored, multi-year venture financing and capacity-building package from the NVF to help start up or expand their social enterprise:



Many of the challenges social enterprises face (and the mistakes they typically make) are at the earliest stages of their enterprise development process.

The early-stage portfolio approach was developed by NESsT to recognize that many of the challenges social enterprises face (and the mistakes they typically make) are at the earliest stages of their enterprise development process. Few social enterprises are launched with a full business plan completed. The early-stage portfolio approach is a valuable means of:

- helping CSOs clarify their core values, set mission and financial goals for their social enterprises, and select enterprises that are consistent with these to help pre-empt or prevent many of the “cultural” obstacles discussed earlier and also to prevent “mission drift”;
- helping to prevent CSOs from making very risky mistakes or launching a business with many unanswered questions and anticipate or prevent many of the costs, management challenges and potential risks of their proposed enterprise.

NESsT has noticed a marked difference in success between social enterprises that have and have not completed rigorous feasibility and/or business planning processes. For example, Pachamama, a CSO creating employment opportunities for low income women in Chile, never went through a feasibility/business planning process for their social enterprise, Flores del Sur, a flower production and export company. As a result, they faced many problems that would likely have been prevented through greater pre-planning and preparation. Now within the NESsT early-stage portfolio, Flores del Sur is completing a full feasibility study for their enterprise expansion. Another organization, Vydra, a rural development organization in Slovakia, underwent a rigorous business planning process with NESsT only to realize that their venture was not feasible. After completing another planning process for a revamped enterprise concept, they have now entered NESsT’s later-stage portfolio and are expanding an enterprise with tremendous potential. Some social enterprises only require guidance in the planning and start-up phase while others face greater challenges in the later stages of management and enterprise development. The Centre for Community Organizing (CCO) in Czech Republic, for example, only needed assistance to develop a comprehensive business plan for their consulting enterprise. Once having a better understanding of costs, break-even analysis,

start-up costs, etc, they needed only minimal financial and consulting assistance before their enterprise was well on its way to profitability.

Feasibility study development and business planning need to be rigorous and demanding.

NESsT has also learned that in order to be effective, the early-stage portfolio process of feasibility study development and business planning needs to be rigorous and demanding. First, this process can be incredibly empowering for CSOs, as they capture and understand the concepts of business as a tool to further their social mission goals. For example, simply observing the difficult process can be rewarding – for example, seeing the staff of Fundacion Chol Chol in Chile completing the planning process for a textile business (selling local artisanal products made by indigenous women), conducting market research to assess the size of their target market, the ideal pricing scheme and export potential of these products. Or seeing the psychotherapists of La Morada (a women’s organization in Chile) beginning to understand and apply the valuable calculations and terms of break-even analysis for their social enterprise concept is itself an empowering experience. Second, the rigor of the process helps to “test” the commitment and capacity of a CSO to undertake the proposed social enterprise and is thus an integral part of the NESsT “due diligence” process for selecting social enterprises to enter the later-stage portfolio of the Fund. NESsT serves a role of both enabler and coach as well as critical observer in the process – a balance of incentive and high expectation is necessary. Therefore, while we provide templates and one-on-one coaching and consulting to help organizations complete the process, we do not complete the work for portfolio organizations. The process is increasingly demanding and rigorous but NESsT also provides increasing levels of incentives along the way to help keep organizations committed, engaged and focused. One example, the NESsT “venture planning grant” is a small amount of resources (typically US\$1500-2500) to offset some of the costs incurred by CSOs in completing a full business plan for their social enterprise but can also serve as an important “reward” for a strong feasibility study and an incentive for completing a rigorous business planning process.

Truly engaged capacity-building support can far outweigh the value of financial investments in determining social enterprise success.

Each of the individual organizations in the NESsT later-stage portfolio has faced a unique set of challenges in developing its social enterprise. NESsT has learned that an “engaged” process with the members of the portfolio requires that a certain level of flexibility be maintained to address challenges and opportunities as they arise. NESsT has learned that the tailored, one-on-one coaching and consulting provided by NESsT staff, NESsT Entrepreneurs-in-Residence (NESsTERs), and our local Business Advisory Network (BAN) is by far more valuable in both financial and non-financial terms than our direct financial ‘investment’ in our portfolio of social enterprises. While incredibly important, the financial support minus the corresponding consulting support lacks the “added value” of the NESsT engaged investment approach. Goals and benchmarks are set out in a signed investment memorandum. NESsT enterprise development staff maintain a regular and close relationship with the managers of social enterprise portfolio members to troubleshoot problems and address opportunities as they arise and to monitor progress. The basis of the working relationship is “win-win” (i.e., NESsT’s performance as a Fund is dictated by the success of the social enterprises in our portfolio) and one that is designed to promote honesty, transparency and mutual respect. NESsT and our portfolio members are therefore honest about learning as we go along (and learning from our mistakes). For example, P-Centrum, a Czech organization operating a woodworking enterprise to employ at-risk youth overcoming drug addiction, learned that the projections in its business plan needed to be adapted once launching its enterprise. Support from NESsT had helped expand their product line and the woodworking shop in order to employ more youth. This success became a potential liability as it became clear that increased sales placed unrealistic production

demands on the youth. The enterprise thus needed to be carefully managed with the addition of full-time (non-youth) employees to ensure that employed youth received the benefits of therapy and job training while clients would also be ensured of reliable production quality and fulfillment. The Centre for Community Organising (CCO) in Czech Republic, meanwhile, required assistance in developing a more appropriate human resource system for its consulting enterprise. Rapid growth of its enterprise had exceeded business plan projections but at a toll to managing staff in its five regional offices. Energy Centre Bratislava (ECB), however, faced other challenges in its consulting enterprises. The loss of an expected corporate partner for its Energy Advisory Services led to a major revision of its business strategy and challenges in managing a growing demand for its consulting services with a very limited in-house staff.

Likewise, the relationship NESsT has developed with our local BAN helps to build direct links between our portfolio members and local area business leaders. BAN members have provided hundreds of thousands of dollars worth of pro bono advice and consulting to our portfolio, opened doors and networks and assisted portfolio organizations with very specific challenges – from product development to marketing, accounting or legal issues. Furthermore, many of these pro bono relationships have also translated into additional financial support to our portfolio. Local BAN members, becoming engaged on a volunteer basis with individual members of our portfolio, are increasingly becoming involved as financial supporters. This engagement thus becomes an important part of a wider strategy to increase local giving (i.e., “indigenous philanthropy”) from local individuals and corporations to social enterprises in their community – and to build a local network of support around each social enterprise portfolio member.

Social enterprise success is a means, not an end, to financial/organizational sustainability.

While social enterprise is the entry point of NESsT’s “investment” in our portfolio, it is within a broader context of enabling CSOs to be more organizationally strong and effective overall – and thus, to further their social change mission. However, while social enterprise can be a valuable tool, some have lost site of the forest for the trees. NESsT has learned that social enterprise itself does not necessarily lead to greater financial or organizational “sustainability” for CSOs. Some of the best “performing” social enterprises (in terms of financial return) have contributed little to the overall organizational health and effectiveness of their CSO parent organization. On the contrary, some have drained valuable resources (human and financial) from their CSO parents; others have succeeded in generating net income but at the cost of losing site of the original mission purpose; still others have generated net income in support of the nonprofit mission in the short-term but have contributed little to the long-term stability of the organization. NESsT has learned that an important part of fostering social enterprise is ensuring that it helps to increase: effective organizational financial and management systems; “untied” or “unrestricted” income; a diversified funding base; accumulation of assets and long-term financial stability.⁹

⁹ NESsT’s forthcoming book, Risky Business: the Impacts of Merging Mission and Market looks at these issues in greater detail by looking at the impact of social enterprise on 45+ social change organizations around the world.

Issues of ethics, transparency and accountability are particularly important in countries in transition.

Social enterprise managers have a responsibility to preserve and protect one of their greatest assets – their reputations as independent voices of social change. Particularly within the emerging market context, where corruption can be a way of life in the business world, social enterprises must be particularly prepared to articulate their purpose and illustrate transparent behavior. NESsT has learned that it is therefore an important part of the social enterprise development process to help managers understand the ethical dimensions of social enterprise activities and help them to manage their business activities as transparently and fairly as possible, always placing the nonprofit mission and values first. In 2000, NESsT therefore launched an ongoing effort to address the unique ethical issues of social enterprise by working with practitioners, business ethicists, donors and others to develop the first “code of ethics” on social enterprise.¹⁰ All organizations entering the NESsT later-stage portfolio are required to agree to the principles outlined in this code and to commit to putting them into practice in their enterprise management strategy.

CONCLUSIONS

This paper has only touched the surface of the many challenges and lessons of supporting social enterprise in emerging market countries and is only intended to spark thinking and discussion at the Alcoa Foundation’s Social Venture/Enterprise Initiative International Forum. While each individual organization, enterprise, and experience is undoubtedly unique, it is clear that many of the challenges articulated herein could easily apply to examples of social enterprise in numerous countries around the world. However, the paramount lesson learned from NESsT’s experience in supporting social enterprises in the emerging market countries of Central Europe and Latin America is the fundamental necessity of allowing sufficient flexibility to address the very concrete cultural, regulatory and enterprise development realities of each.

¹⁰ Commitment to Integrity: Guiding Principles for Nonprofits Entering the Marketplace was first published in 2000 and is now available in English, Czech, Slovak, Hungarian, Slovene, Spanish versions. NESsT expanded its work on ethics in 2002 by launching the Social Enterprise Ethics Initiative (SEE INIT).

**Non-Profit Enterprise:
Social Entrepreneurship or Rather a Survival Game?**

by Dušan Ondrušek and Peter Gušťačík

Partners for Democratic Change Slovakia

(Slovakia)

Non-Profit Enterprise: Social Entrepreneurship or Rather a Survival Game?

by Dušan Ondrušek, Peter Gušťařík

Dušan Ondrušek, PhD, is Director of the Center for Conflict Prevention and Resolution, Slovakia (which is part of the network of 13 conflict resolution institutions "Partners for Democratic Change") and an international consultant and trainer in the fields of conflict resolution, collaborative planning and organizational development. He received his education at Comenius University, Bratislava (PhD in social psychology) and completed a postgraduate fellowship in civil society development at the Institute of Policy Studies at Johns Hopkins University in Baltimore, MD, USA. Dušan coordinates and leads trainings for various participants (GO's and NGO's representatives, managers, judges, mayors etc.). He has worked as a trainer/facilitator and consultant in international trainings and workshops in 30 countries outside Slovakia, mostly in Central and Eastern Europe for diverse clients like OSCE, World Bank, East-West Management Institute, World Learning, etc. In his training/consulting work, he focuses on human rights education and human rights teaching methodology, constitutionalism, civil society development, and prejudice reduction in the frame of governmental and nongovernmental context. He has conducted trainings for human rights activists also in the CEE, NIS and Balkan countries (like Moldova, Ukraine, Armenia, Russia, Georgia, Bosnia, Serbia, Bulgaria, Romania). He is author and co-author of three books (connected with the civil society development and civil rights education methodology) and over 20 published articles mostly on the topics of development of altruism, civil society, effectiveness of trainings, and cross-sector collaboration.

Peter Gušťařík also works with Partners for Democratic Change Slovakia where he provides training and consulting to not-for-profit organizations on topics such as business planning, public relations, and board development. Peter is co-author of several books, including the Business Handbook for Nonprofit Organizations (2001) and the Reader for Advanced Nonprofit Organizations (2000). Before joining Partners for Democratic Change Slovakia, Peter was with The Foundation for a Civil Society (currently Pontis Foundation), where he worked on a project to strengthen the participation of citizens in democratic processes and enhance the sustainability of Slovak nonprofit organizations through grantmaking and technical assistance. Peter received a BA in Mathematics from Cornell University. Peter also currently works as a freelance translator and interpreter for English and Slovak.

ABSTRACT

The purpose of this paper is to explore organizational capacities for non-profit self-financing activities in the countries of the emerging democracy. Examples from Central European, Caucasian, and Balkan countries are used to document the probable developments in the frame of constituting or “re-birth” of the third sectors in these societies. The risk phenomena and cultural challenges are identified and mentioned to clarify the current situation. One example case offers recommendations for creating a supportive climate for self-financing from the donor’s perspective.

The Transition from authoritarian systems to more open ones in the countries of Central and Eastern Europe brought also another attitude toward the enterprising activities of NGOs. Business and the third sector often used to be perceived as completely opposite worlds, based upon different values. Uninformed extremists from both camps still have a tendency to favour the priorities of their sector, whilst pigeonholing the other and attempting to display their supposed superiority. Sometimes this is not solely an issue of awareness, but also of attitudes. Some pseudo-entrepreneurs will have nothing to do with “those amateurs” from the charitable sector. In return, some radical activists utterly detest the “dirty world of business and globalisation.”

This belligerent, black-and-white perception on both sides is disappearing; the borders between these two worlds are opening up, and once-hostile margins are beginning to blend into one another in many areas.

Recently, some people have stated that the third sector should be more willing to adopt certain practices from the commercial sector if true progress is desired. On the other hand, contradictory opinions have also emerged, asserting that the third sector will bring innovation to management at the turn of the millennium; that business has always had, and always will have, something to learn from the third sector. Some other commentators maintain that this flow of information is not a one-way street; as opposed to two contrasting sectors, we are witnessing the emergence of a wide range of organisational types somewhere between the business and non-profit extremes – organisations that have been ‘infiltrated’ by both commercial and charitable concepts. Other observers have stated that the traditionally identified differences (profit or mission as determining motives, paid professionals as opposed to volunteers, etc.), upon which ideologists from both sides of the charitable-commercial divide have based their concepts, are merely myths; the only differences lie in the label applied.

In the last decade, a discussion was sparked between the not-for-profit and for-profit sectors in the USA by an article in the Harvard Business Review, entitled ‘Virtuous Capital: What Foundations Can Learn from Venture Capitalists.’ The authors, Christine Letts, William Ryan, and Allen Grossman (1997), compared the ineffective administration of foundations to helpless floundering in the mud. They argued that foundations should break free of their missionary sentiment and openly adopt commercial practices. They should regularly evaluate their performance and award bonuses in strict accordance with this performance level, and instead of excessive orientation toward research and development, should concentrate instead upon strengthening their organisational capacities to a much greater extent, a process that will lead to success.

This salvo was returned by Bruce Sievers in an article entitled ‘If Pigs Had Wings.’ The cutting caption underneath read: “It’s sexy to compare grantmaking to venture capitalism. It’s also dead wrong.” The assumption that foundations do not succeed because they fail to obtain a return on their investment is inappropriate. The indicator of a foundation’s success is not merely profit (in any way that it may be expressed), which is the case in commercial entities. While the owners of private companies control capital, the relationship of a foundation to the recipient of its support is not proprietary in nature – the role of a foundation is not that of an owner, but of a donor. That is why its behaviour must differ from that of an organisation founded on the basis of ownership. One of the gurus of management theory, Peter Drucker, wrote that the flexibility, clear missions, and innovations that have been characteristic of non-profit organisations in recent decades could prove to be the saviour of a number of large corporations that are incapable of shaking off their bureaucratic shackles, and where over-organisation is destroying creativity. These corporations should closely observe the principles of organisational development and management in non-profit entities.

On the other hand, non-profit organisations often reject even considering the implementation of commercial concepts and practices. They feel that if something is not of a voluntary nature, or if it is too ‘professional,’ then it belongs in the sphere of commerce – in other words, that business and the non-profit ethos are mutually exclusive. However, the world itself is more varied. The concept of bonuses need not be the nemesis of voluntarism; the sale of products made by non-profit organisations need not diminish the passion of those that made them; discussions on marketing

strategy need not signify the demise of spontaneous joy and enthusiasm in the non-profit sector. There are a number of hybrid organisations with a varying proportion of mission- and commercially-oriented characteristics; these organisations lie somewhere in between purely philanthropic organisations (in the strictly traditional sense, which is becoming less fashionable) and purely commercial companies. Global trends reveal that even organisations that used to be perceived as being purely commercial in nature are changing their values. In many cases, social responsibility is finding its way into their corporate culture. Tom Cannon, an economist, has even defined the phases through which companies usually pass when cultivating their social responsibilities. He speaks of four levels of corporate development in this area (reaction, awareness, initiative, and strategy) – from a level where the company is not interested in the community and only passively addresses serious community-related issues that pose a danger to profits, up to the highest level, where the creation of strategy and corporate policy is realised upon the basis of social responsibility (see Lačný, 1999). Socially responsible companies are concerned with the same values as those held by people active in non-profit organisations.

However, by definition, the founders of non-profit entities do not plan to use their organisations to achieve a profit (although a profit may be made, it may not be shared out). Therefore, the strongest links between companies and non-profit organisations are not financial or material in nature, but are represented by people who acknowledge common values.

RISKS THAT ACCOMPANY THE NGO ENTERPRISING ACTIVITIES

A successful enterprising NGO adopts the “double-bottom line” approach to guard its values (fulfillment of mission) and financial sustainability. In its efforts to maintain the right balance and not fall into “red numbers“ in either of the bottom lines, it manages several risk factors. Lee Davis and Nicole Etchart identified a few risky situations that might block the NGO enterprising efforts if not handled successfully. Inspired by their ideas we may observe the following phenomena connected with for-profit efforts in our conditions:

1. **The phenomenon of busy charity-businessmen:** “We would very much like to attend the children camps we organize but we simply do not have the time.... It is very difficult to make enough money for the camps.” (The risk of diverting organizational resources, basically staff time and financial resources, away from programs and toward the self-financing activity)
2. **The phenomenon of mistaking the tool for the goal:** “Since we have started to run the bookshop, we have almost forgotten why we started it....” (The risk of becoming more focused on the business side as opposed to the mission side—especially if the two are unrelated—of the NGO’s work)
3. **The phenomenon of business “self-eating”:** “Now that our business started to take off, we cannot just spend the profit. That would bring our business to an end, wouldn’t it?” (The risk that funds that are generated will need to be used to enhance the business rather than in the programs of the organization)
4. **The phenomenon of damage suffered due to one’s good will:** “We wanted to help the homeless until we got into such debt that we almost became homeless ourselves....” (The risk entailed in losing money or becoming indebted)
5. **The phenomenon of losing good reputation:** “They used to liken us to St. Augustin, today they call us businessmen.” (The risk of losing or damaging the NGO reputation among stakeholders or in general)

Taking into account all of these risks is a necessary precondition for the NGO starting enterprising activities. The ability to take these risks seriously and to develop prevention mechanisms to cope with them depends a lot also on the NGO structure and its phase of development. In the Central and Eastern European context we may observe very interesting developments in the types of NGOs emerging in the third sector. We would like to mention some of the types and their likelihood of success in coping with the risks of starting an enterprise.

WEIRD NGOS CLASSIFICATION

The post-communist legacy left its mark on some non-profit organisations, which represent a meeting point between traditional and transitional influences, as well as organisational and social neologisms. The constantly interrupted development of the third sector in Central and Eastern European countries, mixed with religious/charitable, secular, partisan, and civic influences, led to the formation of the occasionally bizarre plethora of organisational types that form the third sector in our region. Regardless of whether they are registered as foundations, civic associations, non-investment funds, or public interest societies, we shall examine their form, structure, and method of operation from a different, slightly less serious perspective and we would like to venture a guess on their capacity to start for-profit activities.

Based on everyday experience, let us try to describe some of these organisations as they would be described by a disinterested, 'professionally uninfluenced' observer. With a little exaggeration and an approach suited more to an 'organisational amateur' than to an expert, we could classify the most numerous types as follows: *'The Non-Governmental Mayflies,' 'The Heave-Hoers,' 'The Healthy Nucleus,' 'The Non-Governmental Leeches and Mastodons,' 'The Post-Communist Museums,' and 'This Space to Let.'*

Naturally, this categorisation does not cover all types of third-sector organisations. However, we believe that this is a reflection of the current situation of the third sectors in the transition societies in Central and Eastern Europe.

'The Non-Governmental Mayflies' (Passive organisations based upon one opportunity)

There are an exceptional number of these, having been established to perform a one-off activity or project (a dance festival, an exhibition, a Christmas aid activity for children in a particular children's home, etc.). The registration of such organisations has not been cancelled, because the project coordinators have decided to keep them in reserve in case an opportunity arises to utilise the existing organisational framework and bank account in the future. The result is that in a few countries of our region they create more than two thirds of officially registered NGOs. However, the assets of these organisations are currently 'frozen.' The coordinators of such projects are generally confused – some of them vaguely indicate that the organisation is preparing to come into full operation in the future, although such activation has often been in the preparatory stages for a number of years. Some people set up and represent as many as 4 or 5 such organisations, which generally do not even have one member and have not been active for years. They will survive as long as the legal framework allows them to, and for as long as their founders have the energy to prolong their organisational hibernation. The potential for for-profit activity in these NGOs equals zero, because they are active and alive only if the opportunity comes from outside. There is no inner drive or energising mission to help them think in the long term, which is a necessary condition for enterprising activity.

'The Heave-Hoers' (Voluntary, poorly organised associations)

These are organisations based upon enthusiasm and an unclear, visionary mission. Their history can be measured in months, and most of them exist for less than a year. They generally do not have any

specific premises, or even their own telephone; the organisational dimension is relaxed, and based upon habits and ideas of their leaders. The survival (and demise) of such non-profit organisations usually depends upon the zeal of one to three young enthusiasts, who are exceptionally effective in attracting a large number of volunteers. They are generally oriented toward environmental issues, cultural activities, assistance for minorities, or human rights, and their vague objectives vary in accordance with the changing interests of leaders in ‘trendy’ activities. They favour projects that involve a visible campaign or specific services with a rapidly discernible outcome. Activity in the organisation is, to a certain extent, regarded as an adolescent game – by people seeking their identity as they mature – and is often perceived as an alternative lifestyle to that of the established norm. The commencement of any kind of new activity is based upon unconsidered spontaneity. Members of these organisations are completely open to new ideas and a participatory approach; at the same time, they are often too unsystematic and inconsistent when addressing the development of their own organisations. In view of the fact that these non-profit organisations are fuelled by the ethos of voluntarism, and a sound financial footing is not a crucial factor in their existence, there is a good chance that such organisations could endure even significantly restrictive legislation. A considerable number of them will probably evolve over time into organisations of the ‘Healthy Nucleus’ type. The rest will somehow sustain in a longer term perspective, but they will not sell services or products, because in some cases there is no clarity as to what their specific product is.

‘The Healthy Nucleus’ (Organisations with a clearly defined mission)

Such organisations typically have existed for 2 to 5 years already, and most of them are located in small, rented premises (often provided by the local government for a very small fee). They very often have at least 2 to 3 full-time or part-time employees and a number of volunteers. A large proportion of them have a conceptual/control body (an administrative or advisory committee), and executive employees as a part of a hierarchical structure. In general, their objectives are clearly and appropriately defined. They have experience with submitting grant applications, raising funds from businesses, project management, and co-operation with other non-governmental organisations, local government, or local bodies of state administration. Most of them have minimal resources for their institutional operation, and funds received are used for the operational realisation of projects. They are dependent upon short-term (annual) grants, often from foreign foundations. These organisations form, and will continue to form, the healthy nucleus of the third sector. After a process of elimination, regrouping, and redefining the mission under new conditions, most of them finally manage to clarify whether their fundamental mission is oriented toward services or toward advocacy and lobbying, whether they want to carry out their activities through volunteers or concentrate upon higher-level professionalism, whether their funds will come primarily from grants, contracts, state support, etc. Many of them survive, after certain problems with development, and will help to form the roots of civil society. Withdrawal of the majority of the foreign funding is a huge stimulus for them to look for other sources of income. Prejudice against for-profit activities of NGOs is no longer visible in their attitudes, unlike a few years ago. If the learning process in enterprising efforts is gradual (and avoids too many shocks or sharp failures), this is a hopeful segment of the third sector to be developed with the for-profit type of thinking.

‘The Non-Governmental Leeches and Mastodons’ (Organisations allied to other important social entities)

Some organisations operate as independently registered entities with an affiliation to larger social bodies (most commonly to political parties, the Church, companies, etc.), with which they are allied through systems of financing, organisational aspects, and sometimes through their personnel. Most of them experience little difficulty in obtaining the essentials they need for the operation of their organisations, and their long-term perspective is assured, sometimes through grants from abroad. Regardless of whether they are small or large organisations, they often appear to be relatively

secluded in nature; they are cautious when making contact with people from outside, and sometimes appoint representatives to provide information about them. Their real objective sometimes has a markedly political nature, and is occasionally on the fringes of ethical principles or the law. Such organisations are completely dependent on the decisions of their supporters; they often have no deeper intention than to play the role of a ‘cog wheel’ in the implementation of their sponsors’ aims, and disappear when their supporter does.

Some organisations of this type create the impression of being successor organisations to the large, socialist institutions that used to make up the state (in their size, facilities, budget, nature of work, composition of personnel, strong hierarchical structure, non-transparent decision-making processes, etc.). Some of them are newly created organisations with personnel who are largely employed in state and political institutions, and who also run such non-governmental organisations. They have a small number of voluntary workers, and sometimes co-ordinate the work of other non-profit organisations that are dependent on volunteers. A number of them have problems learning how to operate in an independent, liberated environment without nepotism and state funds. This fact affects the structure, function, and effectiveness of the sector, because organisations from a totalitarian regime are not in the habit of interfering with public issues or engaging in public policy – they are more oriented towards mutual interest activities for their members. When working, they often merely duplicate the activities, bad habits, and structure that they were accustomed to under the communist regime in previous decades.

They will probably acquire the practise of enterprise development quite quickly, specially if they are non-governmental twin organizations of large companies or political parties. But in some cases, ethics, integrity, and transparency might be an issue. Besides the practical questions of marketing or accounting, good-practise codes have to be discussed a lot, because business-like activities of these organizations may put at risk the image of the entire nonprofit sector.

‘This Space to Let’

These organisations are an unplanned by-product of the transition process in post-communist countries. They were established because donors wanted them to be established, and will only survive as long as the financing does. They are not set up as grassroots organisations and are not based upon the need to embark upon a mission – they are founded on the basis of donors’ explicit or implicit wishes. They evoke an image of force-fed livestock – farmed under artificial conditions with large financial reserves and against the grain of natural development, often with negative consequences. They are the result of too much effort spent in artificially accelerating the growth of civil society. Employees come to work in these organisations not with the aim of realising their mission, but with the desire to get a good job. Their leaders, when asked what the objectives of their programmes are, reply, “Whatever you wish. What sort of programmes do you support? We are ready to do absolutely anything if we get funding for it.” They do not behave like owners of an organisation, more like tenants. They temporarily utilise the benefits of the organisation and its mission, providing their (often professional) services in return. In the event of a crisis, however, they are not particularly loyal to the organisation – if necessary, they are prepared to adopt new objectives at the drop of a hat, even if they are in conflict to those that they replace. One year, they are involved in environmental issues; the next, a feminist organisation; later, they may become involved in education on the functioning of the market – anything that is currently in fashion, and that has a chance of obtaining donor support. The will of the donor is more important than meeting the demands of their clients. In fact, the donors are their clients. Such organisations rise and fall on the waves of donor interest, but their leaders never disappear – they simply change their workplace.

They represent a kind of litmus test indicating the state and direction of financial assistance in the country or region concerned.

A small minority of them have a chance to turn into natural mission-driven organizations with developed for-profit activities as a natural part of organizational culture. The majority of these donor-driven organizations will die shortly after direct donor support dries up.

DONOR APPROACH TO DEVELOPMENT OF NGO CAPACITY FOR SELF-FINANCING

Knowing this complex environment, what are some of the steps to be recommended in creating a supportive climate for self-financing from the donor's perspective? Let us take a lesson from one specific case. Jan Hus Foundation Slovakia (JHF), which is funded by Trust for Civil Society in Central and Eastern Europe, seeks to support financial sustainability of NGOs through its program "Self-Financing Activities of NGOs." In the form of a grant-application process and the following project implementation phase, JHF helps NGOs develop a steady financial income to cover their expenses. After long preparation for this program, they formulated a few useful principles:

A/ The selection of the proper candidates to receive grant support is crucial. That is why some of the eligibility criteria for applicants included:

- the NGO activities must contribute to development of civil society in its field,
- the NGO must have a strategy for its development for the next three years,
- the NGO develops a business plan including financial projections and a break-even point analysis and demonstrates ability to achieve profit,
- the NGO must put at least 20% co-financing into the project to demonstrate its commitment to the business venture, and
- the NGO is required to consult the JHF program manager on the grant proposal and quality of business plan.

B/ Isolated grant-funding of selected projects will not work without a broader favorable environment and support. That is why JHF requires applicants to undergo the business planning process of several weeks or even months. JHF announced the application deadline accordingly in advance. JHF also offered to contribute financially toward the cost of self-financing training provided by a training institution (in this case our organization – PDCS).

C/ The donor does not offer this program in isolation, but looks for strategic alliances in the program and actively includes other partners in activities from the beginning. For example JHF provided information where appropriate on the possibility of taking a loan from another foundation, (which is not responsible for this specific program) through its micro-loan program for enterprising NGOs.

D/ Repeating the good practices from the venture business development strategies and aiming to apply some of the principles of business-development incubators, JHF set the grantee selection criteria in such a way that its grants fulfill the function of initial start-up or investment capital. The organization is expected to make a return on that "investment" and use it toward its mission.

The example of JHF strategy is not just accidental. It is a result of previous attempts of NESsT and other similar efforts in this region and it brings evidence that long-term efforts may bring success.

It's just that the time until the first measurable success is always longer than expected at the beginning.

Literature:

Lačný, M (1999): Podpora kultúry a fenomén spoločenskej zodpovednosti organizácie. Acta Culturologica, FFUK Bratislava.

Lee Davis and Nicole Eckhart materials connected with the NESsT project

Letts Ch., Ryan W. and Grossman, A. (1997): 'Virtuous Capital: What Foundations Can Learn from Venture Capitalists.' Harvard Business Review.

A Successful Social Enterprise Responds to the Market

by Julius Walls, Jr.

Greyston Foundation

(USA)

A Successful Social Enterprise Responds to the Market

by Julius Walls, Jr.

Julius Walls, Jr. is COO for Greyston Foundation and CEO of the Greyston Bakery. Greyston Foundation is a non-profit company whose operations are funded by a combination of grants and revenues from its non-profit and for-profit subsidiaries. Greyston Foundation operates Greyston Health Services, Greyston Child Care, Greyston Family Inn, Greyston Community Technology Learning Center, and Greyston PathMaker Program. The foundation also oversees Greyston's two social enterprises: the well-established Greyston Bakery and the newly formed Greyston Bakery Café.

Mr. Walls was born in the inner-city neighborhood of Bedford-Stuyvesant in Brooklyn, New York. Educated at Catholic schools throughout his early years, Mr. Walls went to the Catholic college seminary to pursue the priesthood. He later transferred to Baruch College to study business. He worked first in the accounting field at a midsize CPA firm and was given an opportunity to work for a chocolate company. At age twenty-seven, Walls was promoted to Vice President of Operations. In his final years at the chocolate company, Mr. Walls started his own product manufacturing and fund raising company, Sweet Roots, Inc.

Mr. Walls joined Greyston in 1995 as director of marketing. He was appointed General Manager and CEO in 1997, and later was promoted to Vice President of Business Enterprises and Jobs for Greyston Foundation, and then became COO. Mr. Walls serves on the board of directors for the Workforce Investment Board – Yonkers, SEA Change, Yonkers Chamber of Commerce, and the Yonkers YMCA.

Ten years ago, during a break between meetings of the newly founded Social Venture Network, Ben Cohen and Bernie Glassman went for a walk in the clear air of a Colorado afternoon. In the conversation that followed, the ice cream entrepreneur and the founder of the Greyston Foundation began discussing how Ben & Jerry's ice cream might support Greyston's social mission by purchasing brownies from the Greyston Bakery, a revenue-generating venture of the foundation. It was a turning point for Greyston.

The relationship between Greyston and Ben & Jerry's began with the well-intended desire to combine the two organizations to do good. But alone the desire to do good is insufficient to support a premium quality food product and a social mission. It took about 5 years and significant growth in skill sets and manufacturing capacity for Greyston to break even. For Greyston to become profitable, we had to professionalize our business by focusing on a few key lessons: pay attention to the market, remain true to the vision, pay attention to the needs of the business, and don't force the business to be a social program. Without these, our brownie business would still be struggling along.

Pay attention to the market

The most important element in the success of any enterprise or business is that the service or product must fulfill a market need. This need may have existed before the business was formed or, through its marketing, the business may have created a new need. But any business must be keenly aware of what the market says it wants. In our case, Greyston developed a market for its baked goods by developing its relationship with Ben & Jerry's, perfecting that relationship, and expanding to other clients. The process of building that first relationship was critical. Ben & Jerry's required a

very specific product – one that could meet its standards of production and price and would taste great in the mouth. We spent two years developing the perfect brownie, and as we perfected the production, Ben & Jerry’s gradually shifted its purchasing from other producers to Greyston. Today we are the exclusive provider of brownies for three of Ben & Jerry’s top 10 selling flavors. Yes, our social mission appeals to Ben & Jerry’s and to many of their customers, but our success is a function of market satisfaction with our product. This drive for quality is also the reason that Cumberland Farms incorporated our brownies into their most popular gourmet ice cream flavors. Our attention to the needs of the market has made our product popular.

This is a relatively simple concept, but many for-profit and nonprofit businesses make the mistake of not integrating the needs of the market into their plans. At the Greyston Bakery, our business is guided by what we want to accomplish and the opportunities the market offers.

Remain true to the vision

As we consider running our social enterprises, we also focus on the approach we take to them. At the Greyston Bakery, our business is steered both by what we want to accomplish and by our mission statement and guiding principles. Both incorporate business principles, and we refer to them in the course of our day-to-day operations as well as our strategic planning processes.

Our mission statement:

Greyston Bakery is a force for personal transformation and community economic renewal. We operate a profitable business, baking high quality gourmet products with a commitment to customer satisfaction. Greyston Bakery provides a supportive workplace offering employment and opportunity for advancement. Our profits contribute to the community development work of the Greyston Foundation.

Our mission statement refers to what we want to accomplish with respect to our employees, our community of Southwest Yonkers, our customers, and our parent company, the Greyston Foundation. We explicitly state what effect we want our business to have on each. Our goal is to provide our employees an opportunity to transform their lives from one of dependency to self-sufficiency in community. However, we will do that within the context of a for-profit business that provides financial support to the work of the Greyston Foundation.

As important as a mission statement, however, is a vision for how that mission will be accomplished. As a part of a strategic planning process, the bakery’s leadership committed itself to the following explicit principles. These principles, while flowing from the Greyston Foundation’s mission and the mission of the Greyston Bakery, incorporate business principles that will drive the bakery towards profitability.

The bakery:

- Will strive to be a model for inner-city business development
- Should consistently achieve an operating profit.
- Will maintain an open-hiring policy.
- Will continue to operate in Yonkers.
- Will actively integrate itself into the Greyston Mandala.
- Will have as a central purpose the generation of profits that can help sustain the work of the Greyston Mandala.
- Will rigorously measure, document, and monitor its progress toward all non-financial goals.
- Will empower its employees by compensating them fairly for their efforts.
- Will strive for stable employee turnover rates for post-apprenticeship employees.

- Will automate its production whenever such changes are fiscally appropriate.

These principles are actively incorporated in our day-to day decisions and form the backbone of our efforts to serve our mission and manage our business.

Pay attention to the business need

An important part of Greyston's transition to profitability was an increased focus on the business needs of the company. Our desire to do more for the people we work with and to increase the number of people we serve was making it difficult for Greyston to provide what the market needed. Many of the equipment decisions we make in the process of growth present us with an uncomfortable dilemma – developing the efficiencies necessary to stay competitive may require eliminating one or more staff positions. In order to maintain a profit and to ensure that bakery employees are developing skills valuable in the modern marketplace, the bakery has automated certain aspects of the production process when fiscally appropriate. Our management team monitors technological trends in the baking industry in order to inform these decisions. We strive to maintain and increase employment levels, despite increased automation, through improved marketing efforts and sales growth. But we constantly ask ourselves, 'what does this business need in order to succeed?'

Recently, Greyston has faced a difficult decision. As the bakery has grown, it has always chosen to develop skills from within its existing pool of employees. Of the 68 employees, 62 began as trainees and have worked up through the organization to positions of greater responsibility. We have been successful at improving sales, raising wages, and sustaining enough growth to support this process. However, as Greyston grows, we cannot develop rapidly enough some of the skills necessary for specialized jobs. In these cases, our commitment and our focus on the business need require that we reach beyond our current pool of employees to acquire those necessary skills.

Don't force your business to be a social program

At Greyston, we don't employ people to make brownies, we make brownies to employ people. This is a simple but profound statement. For years many nonprofits have been operating "programs" to train people in "real working situations." Some of these operations dispose of these products/services or give away their products/services by selling them below market pricing. Many of these efforts have not yielded the desired result of providing people with practical work experience, and most do not cover expenses or produce a profit. Achieving an operating profit is the best route to long-term survival of the organization and the best inducement for others to follow the bakery's model. But we cannot expect our business to succeed as a business if we are asking our managers to be social workers as well.

We believe that our responsibility is to provide our workers with an environment that allows them to succeed in their efforts to improve the quality of their lives. We provide a work environment that allows and encourages them to get assistance from the Greyston Foundation when they need it, but we are very strict about our expectations for attendance, punctuality, attitude, and performance in the workplace. Because we are subject to the discipline of market competition, bakery employees develop skills that are genuinely valuable and marketable. This market pressure also holds our management team accountable and does not allow us to produce inefficiently or below market quality standards.

To continue to succeed, Greyston must remain competitive with other producers and other bakeries regardless of our social mission or good intentions. In our specific case we must produce cakes and

tarts that New York upscale restaurants will sell to their discriminating clientele at prices that range from \$3.00 to \$6.00 per serving. Our customer, the restaurants, will not purchase from us if their customer, the consumer, does not like our product. Our customer is quick to inform us when our product does fit their assortment and price point, and they will be quicker to inform us if we do not meet their service needs or quality standards.

So as we pursue our social mission, we must remain vigilant in our efforts to operate a successful business. Success is calculated on our measurable social mission outcomes and financial statements. Success will only be attained if we produce relevant quality baked goods in an efficient manner. Relevancy will be determined by market demand. Efficiency will be demonstrated by market demand. The opportunity to grow and succeed in our social mission objectives depends on this market demand. And we would have it no other way.

This paper was originally produced for Community Wealth Venture's report Powering Social Change and has been adapted for Alcoa Foundation's International Social Venture/Enterprise Initiative Forum.

Appendix A: Profiles of Selected Social Entrepreneurs

Appendix to
Global Trends in Financing the Social Sector: How Successful Social Entrepreneurs Mobilize
Resources and Leverage Their Ideas

By Mirjam Schöning

Latin America

- APAEB, Ismael Ferreira, Brazil
- Comitê para Democratização da Informática (CDI), Rodrigo Baggio, Brazil
- EcoClubes, Ricardo Bertolino, Argentina
- Irupana, Javier Hurtado, Brazil

Asia

- Childline India Foundation, India
- Population and Development Association, Thailand
- Self-Employed Women's Association, India
- Waste Concern, Bangladesh

Africa

- Association pour le Soutien et l'Appui a la Femme Entrepreneur (ASAFE), Cameroon

Europe

- Bily Kruh Bezpeci, Czech Republic
- Bosnian Handicrafts, Bosnia

USA

- Endeavor, USA
- CityYear, USA
- TransFair USA
- Project Impact, USA

Ismael Ferreira

The Innovation The *Associação dos Pequenos Agricultores do Município de Valente* (APAEB), a cooperative of small sisal growers based in the interior of Bahia, Brazil, is demonstrating how agricultural workers can organize themselves to succeed in the global economy. APAEB began by helping farmers to collectively market their sisal crop (sisal is an agave plant with lance-shaped leaves whose fibers are used to make ropes, rugs and brushes). As it grew, APAEB fought for export rights, forged links with foreign markets, built processing plants and a factory, and now sells millions of dollars of quality finished products for sale abroad. Having won numerous awards, it has influenced similar practices across Brazil.



Associação dos Pequenos Agricultores do Município de Valente (Small Farmers Association of the City of Valente)

Established in 1980

Brazil

apaeb@apaeb.com.br

Background

Ismael Ferreira, the son of a sisal farmer, established APAEB together with other Valente farmers to improve the lives of poor sisal growers, many of whom lived in shacks without running water and electricity and could not afford to educate their children. The sisal industry is a top-heavy network of large companies with long-established market ties. Working initially with 70 farmers, Ferreira overcame the deep resistance to the cooperative idea and fought for four years with government officials and business interests to establish APAEB as an exporter in order to capture profits that had traditionally gone to intermediaries. APAEB's membership is reserved only for small farmers.



Strategy

APAEB has built an international bridge that links small agricultural producers with international markets. This process has entailed organizing and training local farmers with little formal education to manage complex manufacturing processes, while raising financing from banks and donor agencies, and developing lasting relationships with foreign buyers, based on economic self-interest, quality workmanship and mutual respect. Since the construction of its multi-million dollar carpet factory in 1997 in the middle of the semi-arid region, APAEB's revenues have increased 400 percent. Prices for raw sisal have risen dramatically. With more than 800 employees and a revenue of US\$7 million, APAEB has brought a powerful economic multiplier effect to an impoverished region where half a million people are estimated to derive part of their livelihood from sisal.



"My hope," says Ismael Ferreira, "is to see the population from the sertão (semi-arid region) have a guarantee of proper employment and sufficient income -- to provide education to their children and live with dignity, bringing an end to hunger and political manipulation."

The Innovation Based in Rio de Janeiro, the Comitê para a Democratização da Informática (CDI) has developed a simple franchise model for bringing technology to the underserved, including those living in urban low-income communities, in institutions that support those with physical and mental disabilities, as well as with homeless children, prisoners, and indigenous populations. CDI has helped 346 communities establish autonomous and self-sustaining Information Technology and Citizens Rights Schools in 19 Brazilian states, reaching a total of 166,000 students, and well as in Japan, Colombia, Chile, Mexico and Uruguay. CDI schools promote economic opportunities, literacy, health awareness, non-violence and civic participation.



Comitê para a Democratização da Informática (Committee for the Democratization of Information Technology)

Established in 1995

Brazil

rodrigo@cdi.org.br

Background In 1994, Rodrigo Baggio was teaching computer science at an elite school in Rio de Janeiro when he recognized that technology could be a powerful tool to fight the social exclusion of Brazil's poor. So he established *JovemLink* (YouthLink), the city's first bulletin board system, to connect kids from all economic classes. When only well-off kids used the system, however, Baggio realized that it would be necessary to take the technology to the doorsteps of those living on the other side of the "digital divide." That led to the creation of the first CDI school, in the Dona Marta *favela*, a sprawling slum in Rio.

Strategy CDI's success is based on a flexible model that works with existing community organizations and leverages crucial support from business, government and international partners. This model promotes digital inclusion and creates awareness of civil rights principles through the use of information technology. Before obtaining a CDI social franchise, communities must demonstrate clear commitment to the organization's principles and agree to uphold standards. CDI then provides hardware, software and technical assistance, and trains locals to manage the schools, teach IT and citizenship classes and train new instructors, maintain equipment and raise funding through small student fees. CDI also provides curriculum aids, so that technical and Internet skills are used not only to increase job opportunities for poor youth, but to broaden their knowledge and interest in solving community problems. Today, only four percent of low-income Brazilians have Internet access. As CDI continues its rapid expansion -- opening new offices in Guatemala, Honduras, Angola, and South Africa, the organization's major challenge is to maintain quality and connect its schools to the world wide web in a "digital community".



"My dream," says Rodrigo Baggio, "is to mobilize a social-education force to promote the idea of entrepreneurship among our students and graduates, to improve our model of social franchise, and to engage the organization in a widespread movement to teach literacy to youth through information technology."

Ricardo Bertolino

The Innovation The International Ecoclub Net, an organization run entirely by youth and 5,000 volunteers in a dozen Latin American countries, promotes environmental education, waste management, water quality, dengue control and protection of wildlife. With their systems of revolving leadership and equal participation of boys and girls, the Ecoclubs create practical opportunities for young people to make democratic decisions and to engage citizens, media and local governments in environmental action.



International Ecoclub Net
Established in 1995
Argentina
ceaa@cyberia.net.ar

Background Faced with increasing levels of solid waste, pollution and environmental degradation in Argentina and other regions of Latin America, Ricardo Bertolino saw a need to educate the general population about practical, easy-to-replicate solutions, such as improved treatment of household waste, organic gardening, wildlife protection and alternative energy use. Drawing on his knowledge of waste disposal, as well as his experience working with youth, Bertolino initiated the Ecoclubs in Argentina as a grassroots initiative through which youngsters could build leadership skills while serving as transmitters of new ideas in their communities.



Strategy The Ecoclub Net has expanded from Argentina to Guatemala, Honduras, Brazil, Paraguay, Uruguay, Chile, Bolivia, Costa Rica, Panama and Spain. Ecoclub members meet weekly to organize activities, teach each other about environmental issues, and spread the word by making presentations at schools and community organizations, and engaging municipal authorities, businesses, universities, schools, church groups, volunteer fire departments and other non-governmental organizations. Members frequently contribute articles about environmental issues to newspapers and magazines and appear on television and radio. Volunteers traveling door-to-door teaching families to recycle waste have, to date, encouraged 50,000 families to sort thousands of tons of garbage at home. Noting that these volunteers play a vital community education role, municipal governments have begun to fund the Ecoclubs.

"I think that a large number of these youngsters are going to be leaders in their communities, in business, and at the provincial and national state levels," explains Ricardo Bertolino, "and they will feel part of a network of people with similar values which will give them support to change existing unfair"



Focus: Rural enterprise development

The Innovation

Irupana works with 1,700 indigenous farming families across Bolivia, buying certified organically grown produce directly from them, cutting out the middleman. Irupana produces and distributes 80 products including coffee, tea, bread, honey, marmalades, chocolate, dried fruits, a variety of cereals, granola bars and dairy products to 18 Irupana stores and 300 outlets that stock Irupana foodstuffs, including large supermarkets. Approximately 4,000 customers a day buy its products. Organic goods sell at higher prices as they are targeted to middle and upper income consumers, allowing Irupana to pay prices to farmers that are about 25% higher than non-organic produce. Javier Hurtado, Irupana's founder, encourages the farmers with whom he works to keep a portion of their harvest, thus improving their own families' nutrition. Hurtado employs knowledge of organic agriculture and high standards of production to create a product that will command a premium price. Last year, Irupana's sales expanded by 32% despite the economic downturn in the region. Irupana has begun to secure international markets, and just signed a contract with a German buyer to supply 180 tons of Irupana's cereals over the next three years.

Background

Hurtado started his enterprise in the village of Irupana (the enterprise's namesake) with a network of small, indigenous coffee farmers whose produce was free of synthetic fertilizers and pesticides. He set up shop with US\$4,000. Soon thereafter, he began diversifying Irupana's produce. Today, the Irupana factory sits on the northern outskirts of La Paz and employs 110 workers, including six managers. The most important challenge to Irupana has been a socio-political one: well-entrenched institutions and legal structures that stifle social entrepreneurship. The dominant model continues to be one where the Bolivian government and its NGOs seek handouts from the international community. Hurtado believes that this approach is responsible for Bolivia's current social and economic problems. What Bolivian farmers need, Hurtado insists, is market access, technical assistance to develop their products for that market, and credit to buy appropriate equipment needed to harvest, dry and store their produce. Supporting that process is what Irupana has set out to do.

IRUPANA

Founded 1987

Bolivia

irupana@ceibo.entelnet.bo



Strategy

Hurtado's ultimate goal is to establish a new model of social enterprise financing for Bolivia, one exemplified by an Irupana owned by its factory workers and the farmers themselves, as well as other interested investors. By integrating indigenous communities into the national agricultural value chain without squeezing them, Irupana actively fosters an attitudinal shift, transforming peasants who were formerly dependent on the handouts provided by development agencies into empowered micro-entrepreneurs. This creates a series of positive externalities at the macro and micro-levels. Providing an alternative to coca-growing and stimulating environmentally-sound agriculture contributes to improving social conditions in general. The self-respect and better nutritional levels among indigenous farmers that come from providing access to self-earned income improves the well-being of individuals, families and communities. The greatest constraint to Irupana's success is the policy environment in Bolivia, which has failed to create practical incentives and supports to social enterprises such as Irupana that are performing vital social and environmental roles that government cannot play as effectively. Irupana is seeking to establish inroads to policy makers to sensitize them about the importance of relevant policy modifications.

Personal Snapshot

In his late teens and early 20s, Hurtado was a member of Trotskyite Party of the IV International. His background includes a PhD in sociology that he completed in Germany. His dissertation research was on the organization of Bolivian indigenous communities. Hurtado's interaction with Bolivian indigenous peoples, in particular the Aymara and their leaders, convinced him that his country was embarked on a non-sustainable track in many ways. He believed that Bolivia could opt for a fully sustainable development path, and decided to work with indigenous farmers to produce and sell Bolivian products to that end. Irupana began when Hurtado learned the technique of "coffee toasting". He maintains that he is still the best coffee toaster in Bolivia, and the Irupana factory continues to use his original coffee-toasting machine.

Jeroo Billimoria

The Innovation Childline is a 24-hour hotline for children in distress that operates in 31 Indian cities and has assisted over one million vulnerable children in need of medical assistance, protection from abuse, education, repatriation, counseling, long-term shelter and other emergency services. Using the toll-free number 1098, Childline provides an easy entry point into an extensive network of hundreds of child-service organizations, making it possible for citizens across India to assist children in danger at any time.



Childline India Foundation
Established in 1995
India
jeroob@vsnl.net

Background India has millions of children who live on the streets and hundreds of thousands who are extremely vulnerable to illness and abuse. In 1993, Jeroo Billimoria, a professor at the Tata Institute of Social Science (TISS), in Mumbai, began lobbying India's Department of Telecommunications to establish a toll-free emergency hotline for lost, endangered or injured children. Having worked with street children in Mumbai's night shelters, Billimoria had seen the need for effective crisis intervention. She mobilized support from TISS, government agencies, foundations, local child-service agencies and businesses to build the Childline network. Childline was officially initiated in June 1996.



Strategy Childline acts like an intelligent switchboard, one that dispatches calls to optimize society's available resources to protect children. The organization has capitalized on the recent spread of telecommunications in India and the emergence of a vast array of citizen organizations. When a call comes into Childline, it is routed to a child service agency, where volunteer street children often respond to calls themselves. Childline works with police departments, hospitals, railway officials, and organizations that provide shelter, repatriation, education, vocational services and disability assistance. The advertising and consulting firms Ogilvy & Mather and Tata Consultancy Services have helped Childline develop its brand and franchise model. In 1998, India's Ministry of Justice and Social Empowerment committed to spreading Childline throughout India. Having fielded over one million calls, Childline serves as a powerful amplifier for the voices of children across India. Billimoria is now working to spread the system to 12 other cities and other countries.



"Success," says Jeroo Billimoria, "will be when every child in the world has access to a service like Childline and knows that someone who cares is just a phone call away"

The Innovation Mechai Viravaidya established The Population and Community Development Association (PDA) in 1974 to address the root causes of poverty in Thailand. PDA began by focusing on unsustainable population growth as a first step to free up resources for development. It was the first organization to use non-medical personnel to provide information on family planning and to distribute oral contraceptives and condoms in villages and urban neighborhoods. PDA developed creative and humorous approaches to promote family planning that appealed to the Thai sense of fun and de-stigmatized reproductive matters. Its success was so broad-based that the PDA approach became the international model in this field; nationally, it was responsible for a 70 percent reduction in HIV/AIDS infection rates between 1990 and 2000. Since 1990, PDA has turned to promoting rural economic development. With over 500 employees, PDA is the country's largest and most diversified non-governmental organization.



Population and Community Development Association

Established in 1974

Thailand

pda@mozart.inet.co.th

Background Mechai Viravaidya, who had studied commerce at Melbourne University in Australia, returned to his country and started his career with a Thai development agency. He came quickly to the conclusion that development in Thailand was curtailed by its staggering population growth. However, the country's social mores impeded frank talk about family planning. His widely known work in family planning was the first step along the way to free up resources that would otherwise have been sufficient only to maintain a subsistence level of economic activity. The family planning work was only the beginning of PDA's ever-evolving and innovative programs.



Strategy PDA trains residents of villages and urban neighborhoods as community leaders. Over more than two decades, PDA has mobilized thousands of volunteers to provide family planning information and distribute contraception to community members, an effort that has contributed to a drop in the national population growth rate from 3.2 percent in 1970 to 1.0 percent in 2000. PDA's HIV/AIDS prevention program used humor as a tool: PDA helped villagers organize condom blowing contests and Miss Condom beauty pageants and paint slogans promoting family planning on the flanks of water buffalo. The approach was so successful it was adopted by the Thai government. Mechai Viravaidya is now widely known as Dr. Condom. Through PDA's Thai Business Initiative in Rural Development, launched in 1990, 132 companies support 242 economic-development projects across Thailand. In helping communities sustain themselves, PDA discovered ways to sustain itself as well. Today, the organization runs 14 for-profit companies -- including its popular Cabbages and Condoms Restaurants -- which generate 65 percent of its funding.



"All of PDA's programs," explains Mechai Viravaidya, "are based on the belief that local people are best suited to shape and sustain their own development."

Ela Bhatt

The Innovation The Self-Employed Women's Association (SEWA) is the global standard bearer in efforts to provide comprehensive support to poor, self-employed women in countries with large informal economies. Its efforts, over three decades, to increase the bargaining power, economic opportunities, health security, legal representation and organizational abilities of Indian women have brought dramatic improvements to hundreds of thousands of lives and influenced similar initiatives around the globe. Based in Ahmedabad, India, with more than 318,000 members, SEWA is the largest union in India, offering its members a broad array of financial, health, child care, insurance, legal and vocational services.



Self-Employed Women's Association
Established in 1972
India

Background Ninety-three percent of India's labor force are self-employed; 94 percent of this sector are women, and their production accounts for 64 percent of India's GDP. Yet, self-employed women have historically enjoyed few legal protections or worker's rights. Most are illiterate and subject to exploitation and harassment by moneylenders, employers and officials. In 1968, Ela Bhatt, a lawyer who was chief of the women's section of the Textile Labor Association in Ahmedabad, witnessed the terrible conditions faced by women working as weavers, stitchers, cigarette rollers and waste collectors, and began helping the women to organize themselves. By 1975, SEWA had 7,000 members and had overcome the formidable obstacles to win legal recognition as a formal trade union.



Strategy By dealing with the multiple dimensions of its members' needs, SEWA helps its members achieve full employment and self-reliance through self-governance. SEWA members have created several cooperatives and producer's groups, thereby forging market linkages and enhancing their own bargaining position. The efforts have had so much success that, from 1994 to 1998, members increased employment income by 600 percent. SEWA Bank, with 175,000 savers, has issued loans to 92,000 members. To provide for its members' health care, SEWA has helped members start health cooperatives, as well developed an insurance program that provides members' coverage for health care, emergencies and loss of life. A SEWA affiliated team of 200 midwives and health workers serve the health care needs of 100,000 individuals. To address legal issues such as housing and wage disputes, police harassment and exploitation—issues that have an impact on over 240,000 women, SEWA provides legal aid services for its members. Currently, Ela Bhatt and other SEWA leaders dedicate their time to influence national and international policies in support of the informally- and self-employed individuals around the world.



"One day," predicts Ela Bhatt, "SEWA's street vendors will join SEWA's artisans in the Indian Parliament settling issues about the informal economy."



Iftekhar Enayetullah and Maqsood Sinha

Focus: Renewable energy

The Innovation

By promoting the concept of waste as a resource and emphasizing the marketing aspect of organic waste, Waste Concern is causing a chain reaction among multiple sectors in Bangladesh. Working in partnership with communities, Waste Concern has set in motion a process for house-to-house solid waste collection that is then taken to community-based composting plants to turn the waste into organic fertilizer. Waste Concern arranges for fertilizer companies to purchase and nationally market the compost-based enriched bio-fertilizers it produces. Waste Concern thus provides jobs for urban poor that collect the waste and work in the local plants and stimulates behavioral changes in urban communities and the waste management industry. In addition, Waste Concern helps to address the environmental problem of diminishing topsoil fertility due to the use of synthetic fertilizers and pesticides in Bangladesh. At present, 30,000 people are benefiting from Waste Concern's project in Dhaka. Every year, Waste Concern produces 500 tons of compost, but the demand from farmers is rising so much that the fertilizer company marketing it estimates present demand at 10,000 tons per year. Because of its novel approach, Waste Concern has received wide media coverage and recognition. Iftekhar Enayetullah and Maqsood Sinha, Waste Concern's founders, are winners of Fast Company's first Fast 50 competition, the only ones from Asia. Delegations from several countries have visited Waste Concern and started replicating the model in their own cities. Closer to home, several NGOs have already emulated the model in Bangladesh. UNICEF and Bangladesh's Department of Public Health Engineering have started to do the same in 14 municipalities throughout the country.

Background

Initially, no local financial institution or development organization supported Waste Concern. After three years of running their demonstration program with no external support, Enayetullah and Sinha finally convinced the Municipal Corporation and Public Works Department to provide public land for community composting. Waste Concern's first community based compost project was initiated in 1995. Successful demonstration of the project spurred the model's replication to five more communities of Dhaka. Moreover, based on the project, the Government of Bangladesh has recommended in its national policy, the recycling of organic waste via composting as a viable alternative for solid waste management.

Waste Concern

Founded in 1995

Bangladesh

wastecon@dhaka.agni.com

www.wasteconcern.org



Strategy

Success of a community-based program depends largely on identifying and addressing the community's needs, while sustainability of the project depends on involving them in the cost-recovery/cost-sharing process. To that end, Waste Concern has established partnerships with public agencies, private sector companies and communities by working as an intermediary to form the tripartite partnership. Each relationship is important in the public-private-community link. Communities are responsible for monitoring the house-to-house waste collection system and contribute towards its cost. The Ministry of the Environment and Forest, through its Sustainable Environment Management Program, coordinates the project and provides strategic support on behalf of the central government. Local government provides land for the composting plant as well as the electrical connections and other logistics. UNDP has provided start-up funds for the composting units while the private sector markets the compost. An effort such as Waste Concern's requires that land be provided at a nominal rate or free of cost to the entrepreneurs interested in running the project; that there be public-private partnerships to underpin the initiative; and opportunities for training and technical advice on composting and its marketing for the communities involved in the effort.

Personal Snapshots

Sinha, born and raised in Dhaka, is an urban planner-architect. Enayetullah, also from Bangladesh, is a civil engineer-urban planner. The pair met while completing their separate graduate research on urban waste management and decided to work together to develop programs in this area. Initially, the two young entrepreneurs sought to convince government agencies to develop the community-based composting plants, even promising free consulting services to support governmental efforts. But they could not convince the authorities. One government official listened to their ideas and then challenged them: if their ideas for community-managed compost plants were so great, why didn't they create these themselves? Inspired by the challenge, they founded Waste Concern.

Gisèle Yitamben

The Innovation Gisèle Yitamben's *Association pour le Soutien et l'Appui a la Femme Entrepreneur (ASAFE)* is providing business training and development services, alternative financing and access to e-commerce to support thousands of women entrepreneurs in Cameroon, Guinea, Benin, Chad and the Democratic Republic of the Congo. Today, ASAFE is actively engaged with technology companies and business incubators to help African entrepreneurs overcome the digital divide.



Association pour le Soutien et l'Appui a la Femme Entrepreneur (Association for Support of the Women Entrepreneur)

Established in 1989

Cameroon

asafe@camnet.cm

Background

In 1986, Gisèle Yitamben completed a study, for the African Development Bank, which found that women in Africa were systematically deprived of credit because their businesses were too small and they couldn't furnish collateral. Believing that many of these women could develop into successful entrepreneurs, Yitamben mobilized a group of professionals and businesswomen, from Cameroon's populous port city Douala, to support women's entrepreneurship. While fighting for legal permission to establish ASAFE, the group began providing business services to micro- and small-entrepreneurs in regions of Cameroon. In 1992, ASAFE launched the *Femme Credit Epargne*, a credit and savings service designed specifically for low-income women.

Strategy

ASAFE's teams of extension workers train women in management, pricing and marketing skills, always drawing on the women's knowledge of their socio-cultural environment. With 3,000 members, many of whom have built successful businesses, ASAFE is connecting its entrepreneurs to one another and to larger markets through technology. Working with the International Telecommunications Union and Chell.com, a business incubator, ASAFE has developed a leading e-commerce Web portal for African businesswomen, who are exporting such products as crafts and dried fruits to Europe, and translating documents for U.S. educational institutions. ASAFE takes in more than US\$8,000 a month for translation work alone. ASAFE is also working with Cisco to provide large-networking training to its members looking for new job opportunities in the very promising area of local and long distance computer networking, while seeking to expand well beyond its membership base to position itself as one of the leading Internet and e-commerce service providers in West Africa.



"Many African countries are still suspicious of information technology," explains Gisèle Yitamben. "They haven't understood the immense power of the Internet. The solution to poverty among the womenfolk and their children is in information. There is no limit to our future."

The Innovation Petra Vitousova's White Circle of Safety is a volunteer-based support network for victims of violent crime. It provides specialized services such as psychological counseling, legal aid and assistance in dealing with police. White Circle is the first organization of its kind in the Czech Republic, both in its focus on the needs of crime victims and in its volunteer support structure.



White Circle of Safety
Established in 1991
Czech Republic
bkb@volny.cz

Background Violent crime has increased dramatically in the Czech Republic since the political transformations that began in 1989. As a journalist covering this rise in crime, Petra Vitousova came to recognize a severe lack in victim services. There was no mechanism, for example, for a victim to receive compensation for injuries sustained as a result of a crime, even when the injuries resulted in the loss of his or her job. Nor were there readily available counseling services to help victims cope with feelings of isolation or helplessness. In response, Vitousova mobilized a group of professionals -- lawyers, doctors, psychologists, policemen - - to volunteer their time and expertise to help victims instantly and free of charge.

Strategy Vitousova's organization, White Circle, offers customized support to the individual needs of crime victims the Czech Republic, by providing each victim with the necessary services to make well-informed decisions concerning their legal and personal options after a crime. When a victim of violent crime contacts White Circle, he or she first meets with a volunteer at one of the network's six centers where the situation is evaluated. Once his or her needs are determined, the victim is then referred to appropriate professionals, be they a physician to treat physical injuries or a mental health professional to provide assistance for the ensuing emotional trauma. White Circle efforts concentrate on dealing with domestic violence, a most hidden, and yet most widely spread and underestimated form of violence. In 2001 White Circle started a 24 hours crisis hotline for victims of domestic violence. Within the first four months, the hotline received over 2000 phone calls. The Czech government has recognized the need for White Circle's services, and the Parliament has proposed a number of changes in criminal laws, thereby improving the situation of victims of crime. White Circle also offers training program for police officers, judges and the staff of shelters designed to raise awareness and sensitivity to victims' rights and needs. It also organizes self-defense classes and violence prevention programs, gives lectures at schools about crime and conducts extensive public education programs through the media. The organization currently has six centers throughout the Czech Republic. Vitousova is working to replicate her organization's services in Slovakia.

"I meet people during the most trying times in their lives," says Petra Vitousova. "As victims of violent crime, they are at their lowest. But it is also at this time that we can do the most. All it takes is a desire to help."

Lejla Radoncic

The Innovation Bosnian Handicrafts, founded in the wake of the social and economic devastation of the Bosnian war, has quickly built up a modern production business that employs and trains women refugees who had been forced from their homes and lost family members in the war. The company, which manufactures handmade clothing, fashion accessories, home furnishings, and traditional Bosnian crafts, employs 500 women from different religious and ethnic groups, including Croats, Muslims, Serbs and Kosovars.



Bosnian Handicrafts
Established in 1995
Bosnia-Herzegovina
npahcp@max.ba

Background In 1992, Radoncic had a job she loved with a travel agency in Sarajevo, while her husband worked in Tuzla, about two hours away by car. Finding herself in Tuzla the day the war started, she remained there for four years, and needed to find ways to survive. In 1994, she was hired by Norwegian People's Aid to help run one of the first refugee settlements in the Tuzla region. There, she worked with thousands of traumatized and displaced women, many from Srebrenica, where, in 1995, thousands of Muslims were massacred and expelled by Bosnian Serbs. Most of the women refugees were illiterate, but all knew how to knit. A project that Radoncic initiated as a form of group therapy turned into a business when a church group put in an order for 1,500 sweaters. The women filled it in six weeks.



Strategy Bosnian Handicrafts provides women who have experienced extreme trauma and hardship an opportunity to financially support themselves, while nurturing their own cultural traditions. While it operates as a business, Bosnian Handicrafts wants to further expand opportunities for refugees, displaced persons, returnees and rural women, regardless of their ethnicity. The women learn to apply their knitting, crochet and embroidery skills to create products that are broadly marketable. While Radoncic received start-up subsidies for the business, she seeks to generate enough financial profit to sustain the business by producing high-quality wares for sale in Bosnia and Herzegovina as well as for the U.S., Slovenia and Switzerland export markets. Each year, Radoncic introduces new product lines of children's clothing and home furnishings at international trade shows, and has recently produced a sample collection for a famous French designer Agnes B. To increase the output of existing production units, and to expand into other areas of Bosnia and Herzegovina, including Srebrenica, the organizations trains more women in hand and machine knitting techniques, providing them an opportunity to earn an income from their labor.

"The women have regained their dignity and self-confidence. They are very proud of the salaries that give them a chance to support themselves and have a better life," says Lejla Radoncic. "My dream is to become an internationally recognized fair-trade organization with durable markets for products made by Bosnian women, continuing to provide them with a fair and vital income."

The Innovation Endeavor is pioneering a non-profit model to spur global economic growth by offering multi-pronged support to promising business entrepreneurs in emerging markets. Endeavor does not make financial investments, but rather seeks to accelerate the process of new venture and wealth creation by identifying promising entrepreneurial leaders, then connecting them with global networks, events and capacity-building programs designed to accelerate their companies' growth.



Endeavor
Established in 1997
USA
lindar@endeavor.org

Background The birth of Endeavor grew out of a "coalescing of the minds" of its two founders, Peter Kellner and Linda Rottenberg in mid-1996. A graduate of Princeton and a first-year at Harvard Business School. Linda had graduated from Harvard University and Yale Law School and has worked for Ashoka. *Innovators for the Public*, which supports social entrepreneurs, Rottenberg saw that new enterprise development was impeded in that region by a lack of local entrepreneurial role models, access to capital and networks, management training and international learning opportunities. As possible solutions, government aid had proven inefficient; micro-credit programs for small enterprises were targeted at only the poor; and, despite Latin America's US\$1.5 billion private equity market, venture capital was all but non-existent. Rottenberg, along with co-founder Peter Kellner, who had started the largest Western-managed independent oil company in Russia, created

Strategy Endeavor to bring together the elements necessary for successful business entrepreneurship. Endeavor operates on a hub-and-spoke system: Country offices -- currently in Argentina, Brazil, Chile, Mexico, and Uruguay -- are linked to the core non-profit organization, Endeavor Global, based in New York City. Through its "Search and Selection" process, Endeavor reviews business plans submitted by entrepreneurs and selects the most promising in terms of ability to take risks, create jobs, spread wealth and inspire others with their passion. Endeavor helps the selected entrepreneurs sharpen their professional skills, develop their businesses and raise capital. This is accomplished in part through Endeavor's "Country Benefactor Syndicate," a group of local businessmen who agree to guide and finance the first years of a selected entrepreneur's company. Endeavor entrepreneurs develop loyalty to the local Endeavor organization and commit to sustain it. Four of the five countries in which Endeavor currently has operations have been transitioned to this self-financing model. Endeavor has screened 3,000 business proposals and selected 100 entrepreneurs from 64 companies in a wide range of industries.



"Two things drive my work at Endeavor:" says Linda Rottenberg. "A passion for helping young people make their dreams come true; and the challenge of creating a new kind of non-profit, one that borrows the best practices from the private sector to achieve goals in the most efficient way possible."

Alan Khazei and Michael Brown



City Year

Established in 1988
USA

akhazei@CityYear.org

mbrown@cityyear.org

The Innovation City Year is a full-time voluntary national service program which brings together young people from ethnically and economically diverse backgrounds for a year of service. Its program teaches life-long lessons in civic engagement and citizenship. Today, City Year has 1,000 corps members in 13 cities covering 11 U.S. states who have assisted over 650,000 citizens and served over 550,000 children.

Background City Year was unique in the United States when it was established by college friends Alan Khazei and Michael Brown. Concerned about the community disengagement and racial polarization they were witnessing in the United States, the two believed that a well-designed, year-long program of national service would be an effective way to unite people across different classes, races and geographic regions. Convinced that success of such a program hinged on a range of partnerships with business and social organizations, Khazei and Brown nurtured relationships with many foundations, social groups and businesses, including Bain and Company, BankBoston, Reebok and Timberland.

Strategy City Year recruits a diverse corps that crosses the traditional boundaries of race, class, gender, sexual orientation and education. Each of its teams – 10 to 12 members whose ages range from 17 to 24 – spend ten months doing work such as running after-school programs, building community gardens, tutoring or mentoring disadvantaged youth, working in homeless shelters and helping the elderly in assisted living facilities. Volunteers receive stipends, gain skills in first-aid and public speaking, and, upon completion of their year of service, receive a \$4,725 college scholarship. Over the past 12 years, the program has worked with more than 750 organizations, including Habitat for Humanity, the Boys and Girls Clubs and Peace at Home, a domestic violence prevention organization. Khazei and Brown seek to influence national policy by exposing leaders to a program that works and enjoys broad support from citizens, businesses and governments. This year City Year launched a program in South Africa.

"Our work is really about unleashing the native potential goodness and love in citizens and communities as a vehicle for strengthening democracy and meeting our country's and our world's most pressing needs, including, but not limited to illiteracy, hunger, poverty, racism, and social class division," says Alan Khazei. Adds Michael Brown: "President Truman once said that the highest office was that of citizen. Our work is about turning people on to the idea that they can take responsibility for their civic life and build democracy through service, making a powerful impact in their community, their country, and their world."

Paul Rice

The Innovation TransFair USA is working to establish Fair Trade practices as an industry standard for products grown or manufactured in developing countries and sold in the U.S. Starting with coffee, TransFair is connecting small-scale growers, who lack financial resources and marketing capacity, with large U.S. coffee retailers to guarantee the farmers a price that will enable them to keep their farms and support a decent living for their families. At the same time, TransFair is building consumer awareness and demand for Fair Trade products, ensuring that Fair Trade is a profitable growth market for the coffee industry. This win-win value proposition for farmers, consumers, and industry distinguishes the Fair Trade model from traditional aid-based responses to third world poverty.



TransFair USA

Established in 1998
USA

paul.rice@transfairusa.org

Background

Although coffee is second only to oil as the most traded commodity in the world, the price of coffee is at its lowest level in 50 years. The 30 million small farmers in Latin America, Asia, and Africa who grow half the world's coffee receive a tiny portion of its profits. Facing destitution, countless farmers have been forced to sell their land to large agri-businesses. Paul Rice worked in the mountains of Nicaragua from 1983 to 1994 on grassroots economic development projects. In 1990, he founded PRODECOOP, a consortium of 52 cooperatives representing 3,000 small coffee farmers in northern Nicaragua, which became one of the largest organic coffee exporters in the world.



Strategy

Rice saw that the key to saving small coffee farmers was to win over manufacturers and retailers by tapping into consumers' growing concerns with social and environmental issues. His push-pull strategy seeks to develop close partnerships and a leadership role for TransFair within both industry and the consumer movement. TransFair, the only certifier of Fair Trade products in the U.S.A., has already signed agreements with 110 coffee companies, including Starbucks, Sara Lee and Safeway. Fair Trade is now the fastest growing segment of the US\$18 billion US coffee industry. Earlier this year, TransFair began certifying Fair Trade tea, and plans to launch Fair Trade certified chocolate, sugar, bananas, clothing and footwear in the future. A non-profit organization, TransFair intends to become financially self-supporting through certification fees.

"Fair Trade pays a decent price for an excellent product," says Paul Rice, "and helps farmers bootstrap their way out of poverty."

David Green



Project Impact

Established in 2000
USA

dgreen888@earthlink.net

The Innovation Project Impact's Affordable Hearing Aid Project is developing a system to manufacture and distribute top-of-the-line, cost effective, cosmetically acceptable and locally-maintainable hearing aids for the quarter of a billion people in the developing world who are hearing impaired. Few medical companies have attempted to disseminate affordable health technologies to this under-served market. Project Impact, through its local manufacturing processes and careful control of price and distribution, is demonstrating that medical technology companies can market health solutions to people in developing and industrialized countries without jeopardizing financial sustainability.

Background David Green has had much success in bringing low-cost health products such as cataract implant (intra-ocular) lenses and surgical sutures, to millions of people in the developing world. Green helped to develop the Lumbini Eye Hospital in Nepal and Aravind Eye Hospital in Madurai, India. The latter, which performs 200,000 surgeries per year, is the largest eye care program in the world. Today, 60 percent of Aravind's care is provided free of charge, yet the hospital enjoys a 50 percent profit margin. In addition, Green established Aurolab in Madurai, India. Not only is Aurolab one of the largest manufacturers of intra-ocular lenses in the world, it sells lenses for US\$8 that are priced at \$150 in the United States, thereby helping countless patients preserve their sight and ability to work.

Strategy Green is now focusing on hearing. Out of six million hearing aids sold annually across the world, only 12 percent reach people in developing countries, where two thirds of the estimated 400 million hearing impaired live. Project Impact is now designing, manufacturing and distributing a low-cost, digitally programmable analog hearing aid with a rechargeable battery option. Project Impact will manufacture the hearing aids, which are normally priced at US\$1,500, at an initial cost of \$40 to \$50, and make them widely available to poor customers on a sliding-scale basis, with the very poor receiving them free. Through Project Impact, Green plans to show that many medical products and services can be successfully marketed to the poor without undercutting profitability in higher-paying markets.

"The rise of social entrepreneurship within the non-profit sector," explains David Green, "embraces the blending of business skill and perspective with community and social values."