The Corporate Community Investment Project
(CorCom)

Lessons Learned from Partnerships between Businesses and Nonprofit Organizations

Report of a Seminar held on
May 29, 1998
Washington, DC

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Introduction

The mission of the Corporate Community Investment Project (CorCom) is to stimulate linkages between businesses and nonprofit organizations to pursue mutual interests in sustainable development. The project calls for a strategy of educating businesses about the advantages of working with nonprofit partners to help nonprofit organizations become more businesslike in their work and to make appropriate connections that can lead to partnerships.

As corporations move beyond philanthropy to community investment overseas, they need nonprofit partners that know the community and that are skilled in training and community organization and knowledge of local customs and laws. Workers who enjoy access to proper health care, child care, housing, and other services are productive and dependable. Their productivity and dependability help cut production costs and enable businesses to avoid some of the risk inherent in working overseas.

Many businesses make charitable contributions to nonprofit organizations, but CorCom promotes activities that build on the resources of both business and nonprofit partners. These activities go beyond philanthropy to joint ventures that help business reduce risk, increase profits, and expand markets while providing jobs, health care, schooling, quality child care, and other services to those who work for a partner company or live in the community where a partner company's factories and plants are located

CorCom sponsors seminars on specific issues that move beyond rhetoric about the value of partnerships to practical ideas for making partnerships work. This report summarizes one such seminar. The day-long seminar was held in Washington, DC, on May 29, 1998. Welcoming remarks were made by Adele Liskov, Deputy Director of USAID/BHR/PVC, The speakers were Steve Waddell of the Institute for Development Research at Boston College and Cheryl Lassen of Sustainable Development Services. A speaker biography is included at the end of this report. The presentations were followed by comments from a panel of practitioners with highlights of their remarks included here.

In addition to the seminars, CorCom sponsors a leaming network of practitioners, both for-profit and nonprofit, who meet periodically to share experiences, learn from each other, and help build new alliances and partnerships that are sustainable and meet the needs of all stakeholders. They recently prepared a list of lessons learned from the cases presented in their meetings this year. These lessons learned are included with this report.

In 1996, Shirley Buzzard, a professional consultant with 15 years experience in development, and Martin Hewitt of USAID/BHR/PVC started CorCom. They noted that there is no body of knowledge about how partnerships between business and nonprofit organizations actually work or even why they fail. Despite considerable rhetoric from academicians and donors about the advantages of partnerships, there is little information about how to make them succeed, how to start them, what to avoid, and the associated ethical issues. CorCom fills that gap.

Four Key Elements In Intersectoral Success: Looseness, Resilience, Creativity and Productivity

by Steve Waddell, Ph.D
Institute for Development Research
at Boston College

Four key elements, drawn from a 'three-sector' model, in intersectoral success are: looseness, resilience, creativity, and productivity.

The Three-Sector Model

The Three-Sector Model includes, *The State*, *The Market* and *Civil Society*, of which the PVO/NGO community is a part.

The Three-Sector Model		
The State	The Market	Civil Society
1. voters 2. rules 3. public goods 4. rigidity	1. owners 2. production 3. private goods 4. inequality	1. communities 2. processes 3. group goods 4. fragmented

Each of the sectors has key issues, strengths and differences. For example, each sector responds to a different group; *The State* has 'voters' to which they must respond, *The Market* has 'owners' and *Civil Society* has 'communities.'

It is important to look at what the key weaknesses of the partnerships are, such as 'rigidity,' 'inequality' and 'fragmented' and to recognize the distinctions and differences.

SECTORALLY DISTINCT BUT RELATED CONCEPTS		
CIVIL SOCIETY	STATE	MARKET
Social (Group)	*Political (Public)*	*Economic (Individual)*
Justice	Legality	Efficiency
Southern Countries	Developing Countries	
	Campaigning	Marketing

SECTORALLY DISTINCT BUT RELATED CONCEPTS		
Members	Voters	Owners
Sustainability		Profitability
Wealth	GNP	
	Weak tax base	Weak demand
Ec. development		Business growth
Community	Constituency	
	Police	Money

Words can be added in the blank sections of the columns depending on your own situations. For example, under Civil Society, ‘advocacy’ was filled in to correspond to ‘campaigning’ and ‘marketing.’ ‘Popularizing’ was another example under Civil Society.

The key point in this model is to be ‘loose and resilient.’

The Intersectoral Organizational Innovation		
Inputs: Three Sectors >STATE--> >MARKET--> >CIVIL SOCIETY-->	Process: Multisectoral Organizations >LOOSE--> >RESILIENT-->	Outputs: >CREATIVITY >SOMETHING FOR ALL SECTORS

There is a paradox, however, in working in these sectors. The differences are the source of the attraction because each of the sectors sees that the other has something that the other does not have.

THE INTERSECTORAL PARADOX
The differences between sectors are a major source of problems in building collaborations. AND The differences between sectors are the reason to create collaborations.

Lessons Learned presented from Cases in India, South Africa and Madagascar

Three cases from which lessons were drawn are: the Center for Technology in India, Kagiso Trust in South Africa, and a tri-sectoral roads project in Madagascar.[1]

THE THREE CASES			
	India	*Madagascar*	*South Africa*
Key Issue	Ec/Ag. development	Rural roads	Economic transform.
USAID Role	Economic development	Commercial agriculture	No role
Geo. Scope	Regional: state	Regional: 2 provinces	National
Start Date	Late ‘80s	1993	Early ‘90s
Key Agent	Retired civil servants	USAID contractor	Civil Society NGO

Each case draws on different experiences, producing different outcomes. In *India*, lessons learned came from working with universities, some large and small businesses, a women's incubator and more. It is referred to as an 'industry-based' model and draws on three sectors out of which a new organization was created (see graphic comparison of the three models).

The intersectoral model drew heavily on retired civil servants as key agents. This was a State lead development process and, therefore, the State played a key role. The retired civil servants were

[1]USAID is engaged in two of the projects; India and Madagascar. It has been involved in India since the late 1980s when it conducted an analysis of the economic development potential in one main district.. This laid part of the groundwork for the intersectoral project. In Madagascar, there is a commercial agriculture project in which USAID is building roads so that farmers can get their products to market. This activity laid the groundwork there for the intersectoral project.

Partnerships in each case came about in different ways. In India, the model was developed theoretically and then USAID got the government involved by holding a conference that would open a dialogue between all of the parties. After a lot of discussion about what to do and how to move forward, it was decided to move ahead with the project. USAID used the same conference/discussion format in focusing on other sectors, such as pharmacy and plants. In South Africa, the partnership came about after the change in government. They were receiving monies from the EEC and becoming successful with that. The activities evolved into an economic orientation and eventually Kohiso Trust was formed. In Madagascar, the NGO and government sectors are limited. A USAID contractor, therefore, took the initiative in defining a strategy and doing all of the organizing for the NGOs, business alliances and government. USAID got the program going and the government supported that effort in part because of pressure it was receiving from the IMF.

well-educated and since retirement was compulsory at age 57, they were quite interested in participating in a productive program. So, these people came forth to work without charge for 20-30 hours per week to make the program successful.

Key innovations for this case were:

- the role of retired civil servants,
- circulating MoUs to build agreement, and
- replication/expansion.

In *South Africa*, lessons were drawn from the experience of funds from the EEC going into a local NGO which has now transformed in the last five years into an organization that is working with about $40,000,000 in assets and is listed on the stock exchange. The NGO is involved in the business sector and the NGO sector, but backed by government policies as an enabling environment. Two wholly owned intersectoral 'for-profit' affiliates were created, Kohiso Trust Enterprise (KTE) and Kohiso Trust Investment (KTI), and are invested in traditional for-profit businesses. [2]

Key innovations for this case were:

- intermediary holding companies, and
- leveraging community assets.

In *Madagascar*, the case drew on experiences of the government transferring authority to a local association of farmers (AUP) who took the responsibility in their area for road building, repair, and more. It is referred to as a 'geographic-based' model wherein the focus was on a specific locale. USAID was involved in the project for commercializing agriculture in the area and found that a major constraint was impassable roads.

Key innovations for this case were:

- creating road user associations,
- redefining authority over roads, and
- replication/expansion.

Intersectoral Case Outcomes

In *India*

- potato seed industry
- new hothouse industries like floriculture
- tree graft industry (25,000 trees 1996-97)

In *South Africa*

[2] A question was raised from the audience about a 'conflict of interest' between the nonprofit and for-profit organizations. Although there are regulatory restrictions that have to be researched and complied with in each case, there are opportunities for this type of arrangement.

■NGO with about $40 million in assets
■major NGO role in media and other industries
■progressive corporate policies

In *Madagascar*

■191 kilometers of rural road self-maintained
■13 new sustainable NGOs

The Four Key Elements in Intersectoral Success

Intersectoral collaboration must be *loose structurally* for appropriate participation, *resilient operationally* to overcome crises, and they can deliver *creative strategies* to define new solutions and *productive outcomes* for each sector.

Lessons Learned on Looseness

■Networks rather than hierarchies
  > external with collaborating organizations
  > internal with project activities
■Opting in, opting out of specific initiatives
■Match involvement and sector assets/strengths

Networking is easier for NGOs because this has been what they have been doing. The intersectoral models for India, South Africa and Madagascar are all networks, not hierarchies. See, for example, the Core Network Operational View of the India case, which is clearly a network, not a hierarchy. From a business point of view, this is a totally inappropriate structure. While networking is more familiar for NGOs, this may not be the case for private business, which may be more used to a hierarchy or having someone in control.

A NEW DEVELOPMENT ORGANIZATION:
THE CATALYTIC COLLABORATION

....in terms of resource flows and power

Government
/\
|
\/

Corporation <------> *Catalytic Collaboration* < ------> *NGO*

This is the key new approach to development, although this model is seldom seen.[3] While it is important to *opt in* on specific initiatives, there is a tendency that we all have to go along with everything. That is not the case and each project should be viewed on a case by case basis.

Lessons Learned on Resilience[4]

- Have leaders with intersectoral experience
- Embrace multiple viewpoints
- Be willing to learn
- Obtain long-term commitment
  - > leadership
  - > financial

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[3]A comment was made about the model being sound, but that in reality usually one of the sectors was in the lead and not all three working together. There was agreement with this statement and a comment made that processes can be used, such as 'future search' that explores ways in which to bring people to the table and to get them to do things differently. For example, an NGO will be identified, then the NGO goes out and gets some others who are interested. From there, a steering committee is formed, and when then moves ahead.

A question was asked about where the communities fit in the model. In this model, it is presumed that the NGOs represent the communities.

Other discussion points or questions raised were: 1) That private sector businesses and often NGOs have a difficult time envisioning how a collaborative model is operationalized; they do not see how it will work. A suggestion was made that some things need to be done in advance and not just assume that 'it is going to happen' and be dealt with at the time of negotiation between the parties. 2) The question of personal attribution and incentives. Who gets credit for doing what? If you are not going to get the credit, then where is the incentive to initiate? This is a problem area yet to be addressed. 3) There is a difference between the NGO focus which bring people together (network) to 'feel good' and business, which wants to bring people together to focus on an issue and move forward on that. Feeling good may be a part of it, but from businesses' point of view, that will be a secondary factor and they are not going to meet just from that point of view. 4) How do you go about getting existing boards to move forward to seek out a more collaborative direction? A suggestion was made to address the 'mix' of board members to include more private sector and government people and then utilize focus groups, or give the board members some responsibility to do a task such as building linkages to the market, another sector, etc.

A recommended publication is Partners for Hired Hands , which addresses some of the above-mentioned issues. It can be obtained from Randy Curtis at (703) 841-4860 or from A. which addresses at (202) 797-5454.

[4]A question was raised as to what the 'social sectors' gained from 'resilience.' In the Madagascar example, 'upliftment' of the NGO's clients was noted in connecting farmers to markets.

Another question was raised about the riskiness of obtaining long-term commitment, especially from the beginning. Sometimes, it is better to start for six months, or so, as a trial period. In the cases presented, people in the organizations were experienced and had strong leadership. It is important to recognize the differences in the skills between people, however. For example, in the South African case, Kohiso Trust (the NGO) and Kohiso Trust Investment (the for-profit arm) each had people with very different skills. In India, the leadership had been dependent on a very charismatic leader, who replicated the program in other places.

All of the case studies have people who have worked in at least two sectors. It is common that people in *leadership* come from experience in more than one sector.

Sustainability, including *financial*, has been viewed as 'no government funding.' However, a working situation for all means that each brings something different to the table. For example, in India, business and government have created an endowment in 'Cttee.'

In each of the cases reviewed, all started with outside donor funding. Currently, there is no donor funding going to Kohiso Trust in South Africa and donor funding has stopped for road building in Madagascar.

Lessons Learned on Creative Strategies

- Maintain tensions of differences
- Uncover unrecognized assumptions
- Experiment
- Be persistent

Even when there has been large [financial] resources, 'things' have not always worked. *Creativity*, therefore, is a key point.

Uncovering unrecognized assumptions - For example, in Madagascar, in the early stages of the project, they did not know how bad the roads were. When this was discovered, then it was dealt with since it so strongly impacted the success of getting the commercial crops to market.

Uncovering unrecognized assumptions can be done in several ways using a variety of organizational development tools. One process is to use a method of 'creative dialogue,' where the focus is on the process to bring about collaborative strategies. Another process is to use a 'fixed sheet negotiation,' which was used in India.

In India, using the services of retired civil servants was an *experiment*. The civil servants turned out to be the key to the success of the project.

Lessons Learned on Being Productive

- Identify each sector's goals,
- build mutual commitment to goals,
- build on each sectors strengths, and
- address each sectors' weaknesses.

Identifying each *sector's goals* is important in understanding how to approach the collaboration. Part of that process is learning one another's language. For example, in a business environment, you talk about targets, but in the NGO environment, you talk about goals. These can be two different languages which cause tension between the parties unless brought to the surface early on in the dialogue.

The India case provides an example of building *mutual commitment* to goals. One sector wanted to reduce the amount of dependency on the university, and so they created university joint venture businesses to produce - in this case - potato seeds. The university is a member of the consortium and gets money from the businesses. The NGOs are very entrepreneurial and have established links with businesses via new product development labs. Then there is a women's incubator with the goal of trying to create more women-based enterprises. The business sector has a problem -- they want consistent quality, timely delivery and adequate volume.

A 'total quality improvement strategy' was used to look at mutual commitment relative to each sector's goals to determine how they could reach a standard of production that would move forward the efforts of each sector.

The South Africa case provides an example of *using sectoral strengths*. Kohiso Trust Enterprise's (KTE) aim was to do business with 'black' businesses, which meant 'purchase preferences' (which is a clear analogy to the United States). So, an arrangement was established with Rothchild Banks. However, there was a problem with sufficiently trained 'black' entrepreneurs. This problem was addressed by Kohiso's 'for-profit' training section.

Kohiso Trust (KT), because of their strong reputation for responsible handling of large sums of money and having a well-respected Board, were able to obtain loans. Kohiso Trust Investment (KTI) wanted to continue to build its empire and invest in more private sector companies (like the media).

USING SECTORAL STRENGTHS: SOUTH AFRICA
> <u>The State: Rule-Making</u> Writing purchase preferences Threat of writing laws enforcing equity > <u>The Market: Production</u> Joint agreements to transfer knowledge, skills New Companies to fill market "holes" > <u>Civil Society: Participative processes</u> Community reputation critical KT asset Transparency of operations

Another example is from Madagascar.

USING SECTORAL STRENGTHS: MADAGASCAR
> The State: Rule-Making Redefining rules around authority for roads Contributing taxes to road budgets > The Market: Production Contracting with for-profits for road-building Civil Society: Participative processes Building consensus > Other Problems of "padded" bids reduced Costs reduced

The India case provides an example addressing *sectoral weaknesses*.

ADDRESSING SECTORAL WEAKNESSES: INDIA
> The State: Inflexibility Retired civil servants massage system with NGO Market adds outside imperative > The Market: Inequality Benefits spread through NGOs Improved access to market for poor and peasants > Civil Society: Fragmentation Network ties of CTD transform scale Replication through personal ties Academic-biz jt. enterprise improve academic response

Strategies for Reducing Grant Dependency[5]

by Cheryl Lassen, Ph.D.
Sustainable Development Services Project

[5] Notes of remarks presented at the CorCom Conference, Washington, DC May 29, 1998. **Sustainable Development Services** is a Cooperative Agreement funded by the AId Office of Private and Voluntary Cooperation with the Institute of Development Research, Freedom from Hunger and Lassen Associates. Its purpose is to develop methods of services to increase PVO sustainability and to assist agencies who want to improve this.

The 21st century model for nonprofits will emphasize strategies that reduce grant dependency and use business models to create wealth for their programs. Development organizations that thrive in the 21st century must know how to earn income as well as mobilize grants.

Social service nonprofits have responded well in the past to changes in 'public' (donor) markets; but, grants are no longer sufficient today to be the predominant—almost sole-- source of PVO support. PVOs' financial future may well depend on diversifying to and succeeding in capturing and using resources from other types of markets.

MARKETS FOR PVO RESOURCES			
PUBLIC MARKET	LOCAL PRIVATE MARKETS	CORPORATE MARKETS	CAPITAL MARKETS

Nonprofits and PVOs have responded well to public donor markets, but much less to opportunities with local private markets, corporate markets (selling goods or services to corporations in ways that also benefit the poor) and/or capital markets (acquiring and using borrowed capital as a development resource). Although these other markets present many possibilities for the future, the orientation and skills of nonprofits must develop further to operate successfully within them.

Nonprofit Businesses Are Not the Same as For-Profit Ones

A lesson learned from experience of the Sustainable Development Services (SDS) Project during the past two one-half years is that a nonprofit business is NOT the same as a for-profit one. Each nonprofit has a social mission (often related to fighting poverty) and its way of doing business must help accomplish this. A nonprofit business has a "**double bottom-line**" of both social and financial goals to meet. Also, the clienteles of nonprofit business are frequently poor, so they cannot afford to pay high prices. This means that most nonprofit businesses, so-called *"social enterprises"*, must function by having program models that are focused on a few goods or services which are fee-based, no-frills, very economical in cost, and sold in great volume.

The Nonprofit Business Model

Historically, nonprofits are charitable institutions that have depended on donated resources; they are unfamiliar with how to create wealth. We have learned that one cannot "service" people out of poverty: this depends on training the poor for a process of wealth creation. In the same way, one cannot service PVOs out of dependence on "soft money" provided by grants. This also depends on nonprofits learning how to set up and manage a process of wealth creation.

NONPROFIT BUSINESS MODEL
PRICE x VOLUME = COST (PxV=C)

The nonprofit business model is PxV=C. How do we affect 'P-V-C'? Given that they are aiming to benefit the poor, nonprofit social enterprises cannot manipulate greatly the P (price) variable. They do have to define some fee-based goods and services rather than giving everything away. They must also focus on becoming more efficient and lowering C (cost) and expanding significantly V (volume). This simple model for sustainability is universal and cuts across all program sectors.

Especially at the start, it is not practical for a nonprofit to aim to pay 100% of its costs from earnings and become fully self-sustainable. It's goal should be to improve its **financial autonomy**, which can be accomplished by building program earnings to the point where they cover 40% or more of the budget. SDS has learned that this indicator of earned revenue is a "quick & dirty" way to judge the sustainability potential of a nonprofit program. Nonprofits dependent on donated income and with little sense of how to create wealth will show low, stagnant earnings that never amount to more than 5-10% of their annual budgets.

A few sectors of nonprofit international programming have well defined and tested models for social enterprise. Examples are microfinance intermediaries, reproductive health clinics, or minimum housing programs. Unfortunately, the majority of PVO programs do not have these well-defined ideas and models for social enterprise that can provide beneficial services to the poor and recover costs. In the coming era, they must define the social enterprise model that fits for them.

Defining a Social Enterprise

For a nonprofit that wants to increase program earnings and develop a social enterprise, a first questions to ask is 'what does the organization want to sustain? What are the minimum key services and organizational functions (at a project level, a country program level, or a headquarters level) to be able to provide no matter what grants a PVO has or when they start or stop? What does this minimum core cost? A social enterprise can then be developed which has a large enough volume of business to pay operating expenses plus the cost of this core.

Once the nonprofit knows what it wants to sustain, it must define its business idea. This consists of saleable goods and services plus a customer base that will buy them. The PVO must define how the social enterprise will operate and who will operate it. Keep in mind that:

Social enterprises can vary considerably especially if the nonprofit is not in a sector characterized by well-known NGO business models.

Defining fee-based services and expanding the local clientele are essential.

Sustainability is as much cost saving as it is increased earning. Improved cost management and productivity do not require financing.

A highly focused program model is key for social enterprise to function on a scale and efficiency necessary for self-sustainability.

Business management systems rather than expense accounting must guide the enterprise.

The importance of cost management is a significant 'lesson learned.' Nonprofits must become familiar with unit costs---what it really costs to provide a particular service, whether the service has potential to recover costs, and the scale required to do so. PVOs must also understand the cost structure different departments or regions, indirect support services, etc. They must analyze and find ways to improve the productivity of their human resources, equipment, use of machines, buildings and other assets. And they must develop financial management systems and staffs who can keep score in profit/loss terms and provide information and make decisions to improve cost-recovery, productivity and profitability.

The final lesson is that nonprofit earning must be made in a way that allows a PVO to fulfill social equity objectives. Greater financial autonomy is not an end in itself: it is a means to enable nonprofits to fulfill their social mission in a more sustainable way. Below are four examples of PVOs who have been able to recover costs, free themselves from dependence on grants, and fulfill their social mission. The exciting thing that we are learning from them is that building social enterprise and mechanisms for program earnings does not mean that the poor are served less. The opposite is true: social enterprise makes it possible to expand the scope and variety of benefits.

Cases of Social Enterprise

1. The National Rural Electric Cooperatives of America

Throughout the developing world there is a huge, unmet demand for electricity, and NRECA's mission is to help meet this. NRECA supplies technical services to local electric cooperatives and other suppliers for the generation, transmission and distribution of power. NRECA's international arm can also receive free surplus equipment from US electric cooperatives. Types of equipment that are "surplus" to US electric companies but have commercial value overseas are: 1) electric meters and meter reading technology; 2) large electrical generators; 3) electric transmitters and substations. NRECA is organizing a social enterprise to systematically collect this equipment and set up a system to refurbish, warehouse, and ship this equipment overseas. It can decide whether it simply wants to monetize the equipment for a flat rate to help pay operating costs of field or headquarters offices, or whether it wants to install the equipment and take a percentage of the increased electric revenues for several years in the future. NRECA's ability to provide social benefits and to win contracts overseas will be greatly enhanced by having this facility to collect, store and transport surplus equipment efficiently.

NATIONAL RURAL ELECTRIC COOPERATIVES OF AMERICA
Alternative Uses of Monetized Equipment A. Monetize only, help cashflow B. Accomplish 'double bottom line' (social objectives + program earnings) C. Social investment only
Leveraging Consideration 1. Use equipment transfer to gain new partner 2. Use equipment to build goodwill 3. Use equipment of one sort to lead to a larger contract 4. Use equipment as a match or to gain a contract 5. Use equipment to help electric coop cut losses, then take a share of increased earnings

2. The Associacion San Luis Obrero

The *Associacion San Luis Obrero* is a Honduran nonprofit that operates in Choluteca Province, which is on the border of Honduras-Nicaragua-El Salvador. Its mission is to provide services to the poor in the areas of microenterprise credit, health, vocational training, low cost housing, and local industry development. It has set up each of these components on a social enterprise basis that makes earnings to sustain the program. The industrial component, operates a factory that makes and sells industrial gloves from local leather. The vocational training component accepts contracts for construction, furniture and other products to support itself. The health component consists of the *Clinica San Francisco* that provides the following services:

	-- Clinica San Francisco
Associacion San Luis Obrero	

*18 bed clinic *general practice medicine *pediatrics *gynecology/obstetrics *dentistry *pharmacy *medical laboratory	*rural health program *low-income neighborhood health program *cleft palate surgery *cataract surgery

Choluteca province is very rural, and local people are mostly poor farmers and artisans without public or private health insurance. This NGO's mission is to give the poor access to curative and preventative health care at prices they can afford. The clinic sells a medical consultancy (visit with a doctor) for as little as $3 and the daily rate for a hospital bed is $11. These rates are 50% lower than what other private clinics are charging that cater to higher income clients. Clinica San Francisco also buys large lots of generic drugs, repackages them, and sells them to the poor at prices that are as much as 70% lower than what would be paid at a commercial pharmacy. What generates a surplus at the clinic are not the medical or hospital services, but rather the laboratory, x-ray, pharmacy and physical therapy services. The surplus pays for mobile health teams that visit remote rural areas and low income urban neighborhoods twice a month for health screenings, limited curative services (colds, small infections, etc), and preventative health education on such topics as family planning. These mobile teams also organize the local population for surgery, which is performed twice a year to repair cleft palates and cataracts. The clinic and the Association San Luis Obrero still receive occasional donations or equipment or grants to expand facilities, but they have organized themselves to serve the poor largely through cost-recoverable social enterprise.

3. *The Mexican Confederation of Private Family Planning Agencies (Spanish initials, FEMAP)*
FEMAP is a confederation of 32 NGO family planning agencies dedicated to providing quality, economical reproductive health services to the poor on a cost-recovery basis. In 1998 FEMAP celebrated its 25th anniversary. For its first 18 years FEMAP functioned like most charities, depending on donated income, and giving away most of its family planning services and contraceptive supplies. In 1992 it committed itself to graduate from AID funding and earn the majority of its income. The statistics on the following page show the major changes it has undergone in the subsequent years. The volume of its fee-based service rose enormously as it integrated itself vertically and learned to provide many different things (consultancy, lab work, x-rays, other medical tests and screenings, drugs) under the same roof. FEMAP also managed its costs and improved greatly its productivity and efficiency. This was true of workers and services in its clinics and community-based promoters. The results are astonishing! (See graphs on the next page.) While never deviating in its mission to serve the poor, FEMAP decreased its foreign aid dependency from 42% o its budget in 1992 to 14% in 1998.

4. The *International Eye Foundation*, by Victoria Sheffield, IEF Executive Director.

Although 150 million people around the world suffer with eye problems, 80% of these can be treated and cured. This is IEF's social mission. Half of all blindness is due to cataracts. IEF is developing a social enterprise to sell low cost "cataract kits" which contain the surgical supplies necessary to treat a cataract. In Guatemala today, an ophthalmic surgeon pays $80-$90 for these supplies. Taking advantage of economical medical suppliers which it has identified, IEF can assemble these kits for approximately $25. Even adding a profit margin that would be used to cover other charitable aspects of its program in Guatemala, IEF can still make this cataract kit available for much less than its present local retail price.

IEF is evolving its programs according to the new concept of social enterprise. It began by training doctors and nurses and expanding the supply of eye health care professionals. It then focused on providing them better medical equipment. IEF is now heading in the direction of forming social enterprises that would increase the quality and lower the cost of eye surgery. IEF is enthusiastic about this new approach because both social and economic value can be added at several different levels. The consumer can receive a better cataract operation at a more affordable price. Doctors and eye clinics can perform a greater volume of cataract surgery, and to use their earnings to update techniques and equipment. IEF Guatemala can pay its operating costs and offer incentives such as price discounts to expand the supply of operations to the poor and to patients outside the capital city. Since the medical supplies involved in "cataract kits" are lightweight and non-perishable, one operation could be set up to serve several Central American countries. IEF headquarters in Bethesda, Md. can also earn income for its operations by managing the operation that bulk purchases and distributes medical supplies and equipment. For several years IEF understood technically and has had ideas about eye care enterprises. It accelerated development of these ideas by working with the Sustainable Development Services Project, which has helped its staff and board plan how to start a social enterprise and accept that "it is ok for a PVO to earn income."

Conclusions: Nonprofits Need to Start Small Social Enterprises and Build Business Literacy

Because of the need to expand and diversify income, and following the example of other nonprofits who develop mechanisms for program earning, PVOs are turning increasingly to the social enterprise model. Done well, this can greatly expand the scale and quality of benefits to the poor. However, increasing PVO financial autonomy is a process that takes several years to accomplish. Nonprofits can start small with "micro" social enterprises that are affordable for the capital and assets they possess. They can create wealth for their program in ways that do not require capital by managing costs, increasing program focus and improving productivity. As new projects are designed and new grants started, PVOs should define what they want to be able to sustain financially when the soft money ends and devise a multi-year strategy that builds the skills, assets and organization to accomplish this. They should look to improve their skills and experience with nonprofit business in key areas such as the following:

How to build and expand a fee-paying client base

How to cost services correctly and manage costs
How to make and manage a business plan
Financial systems to keep score in business (profit/loss) terms

The Practitioners' Experience

Presenters:
Bill Sheets, Winrock International
Paul Sevier, Technoserve
Victoria Sheffield, International Eye Foundation

Bill Sheets, Winrock International

Winrock International is the legacy of Winthrop Rockefeller, headquartered in Arkansas. We have an endowment left to the organization and relationship with Rockefeller. So, we have base funds. However, the endowment can be a double-edged sword because we tend to rely on that money and somewhat over extend themselves because of the endowment. Each year, we have earnings from the endowment, but need to raise 20 times the money for their programs. We, therefore, are constantly looking for funds. We are trying to shift from government contracts and AID and move more toward other foundations and the private sector.

We work with food production, small subsistence farmers, forestry, human resource development, renewable energy, and more. We operate in 40 countries with staff of about 280 worldwide.

A partnership has been developed with Monsanto. Initially there was some hesitancy in this partnership because Winrock was a 'green' organization and thought all herbicides were bad and working with Monsanto would be compromising their integrity. The product with which we work, however, is environmentally ok and appropriate for their beneficiaries. The herbicide is a labor saving technology and he argues that it is more moral to make the product available as opposed to withholding it.[6] Some lessons learned from working with a large multinational and delivering some value to their beneficiaries as a result of that partnership.

From the beneficiaries point of view, a lesson learned is that the technology we are trying to deliver must be simple. That means that if it is a complex technology, then it may need to be repackaged. For example, in looking at the product Roundup, instead of it coming in a can and liquid form, it was put in a granular form where water was just added. This was more appropriate for the small scale farmers. Another lesson is that you must have people who work with and are close to the beneficiary.

From the company's point of view, the private sector companies do not know how to market their

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[6] Shirley Buzzard added that getting more people on the Board of the NGO as private sector representatives tends to change the mindset of the NGO. His point goes back to being really technically competent at what you do and that meant for Winrock that we knew that the Monsanto product was a good product even though we thought that other products were maybe not their first choice with which to deal.

products to the third world market. Here in the US, he was managing 12,000 acres of land. Overseas, we would be contacting 12,000 farmers just to get at 1,000 parcels of land. So, the marketing is different. Another 'company' lesson is that the companies must be able to put some venture capital up front and be willing to run the risk of losing that capital. Monsanto has to know and understand the relationship of the government in the country in which it will be working. We sometimes need the help of someone who is use to working within the country and with the government.

From Winrock's point of view. The first lesson learned is that 'it is ok' to be working with a private company and the private sector. Winrock did have some resistance. We got involved with a particular company and a particular product and it is a very different relationship. Another lesson is that you can do this; and yes, it can be a success and a right approach. You need to look for companies that have the capacity to do the partnership and go into the new market places. Some other companies with which we tried to partner did not have the capacity.

Yet another lesson is that we have now been asked to look at projects that we have never thought of before. So, the question is whether we should step out slightly beyond their current technical area, or do we remain within narrower boundaries?

Paul Sevier, Technoserve

Technoserve has been around about 30 years. Currently, we are going through a strategic planning process. We try to apply business solutions to poverty alleviation by largely working with enterprises, mostly in rural areas and mostly in agriculture. We work in 10 countries and have about 300 staff worldwide. We realize that to be more effective, we need to create linkages with the private sector, where we see themselves as an equal partner.

One example, of several, is from Peru where we had a relationship with a coca-exporter of natural dye. Small holders/producers process the dye and Technoserve facilitates the connection and technical transfer to the 'big business' coca-exporter. Technoserve sees itself as a intermediary and does not get paid for its role.

In Kenya, the demand for dairy products is bigger than the supply. The government has gotten out of the dairy business and Technoserve is working with the smaller producers to facilitate their development. Technoserve works with an USAID-funded project in the dairy area which is affiliated with Heiffer International and the American Breeder's Services in Wisconsin (a private sector company) to provide assistance to the dairy sector in Kenya. We also involve a large Dutch packaging company. Technoserve is not getting paid by any of the companies, but does have a collaborative working relationship with them.

Ghana is the only example of where we get paid for their work with a small export company called VRI. There, we do get a management fee of 2 percent of sales.

Technoserve believes that over time we are building up recognition for their capabilities and eventually can 'bring these to the table' with their track record and their fees. Technoserve has not charged up until now because we have been funded with grants.

Victoria Sheffield, International Eye Foundation

A question she poses is, "what level of democracy does a country need to have in order to participate in the partnership?" One book she recommends is *Compassionate Capitalism.*

General Discussion

Is there a way for the private sector to be more transparent so that the NGO will know what to charge them? For example, is there a way to know what profits the private company has or how their market is expanded as a result of the activity? A discussion followed which suggested that NGOs charge for services based on 'performance-based' fees.

Another comment was made that when partnering with a business and asking to participate in their 'profits,' this may not be a reasonable request because the company may not be expecting a profit (or, return on investment) for a great deal of time.

Lessons Learned by the CorCom Network

The CorCom Network is a group of 15 U.S. based development organizations, all of whom have corporate partners. The group held a series of monthly meetings between February and June of 1998 to hear case studies and discuss issues raised by the seminars. The cases included a range of roles for NGOs including marketing of products (agricultural supplies, condoms, fortified foods), facilitating contracts with artisans and local producers, economic development (microcredit programs), housing for factors workers along the Mexican border, and community development near oil refineries. The cases came from Latin America, former Soviet Union, Africa, and India.

The following lessons emerged from the discussions. The lessons learned are a work in progress and will be revised as more experience is added.

- As governments shrink, it is not expected that the private sector can take up all the things governments used to do. There are business solutions to some problems such as job creation, employee health and education, and natural resource problems. But there will always be some problems that require a government solution including national programs of education, family planning, and health services. As this is a new model for development, we do not yet know what is limits are. The private sector can do much more but it can not do it all.

- An important role government can play is the facilitation of partnerships, bringing together key players from all sectors to make the best use of all resources. Governments also must establish regulatory frameworks and licensing procedures that are socially responsible and provide incentives for business to have NGO partners. Governments in some countries have an important role to play in helping to privatize state-owned businesses.

- A critical role NGOs can play overseas is in advocacy and influencing public opinion. NGOs can pressure business to be socially responsible and they can influence government regulations and policies. NGOs have very high credibility, more so than business or government. They can use that influence to make changes in government and business.

- Partnerships require a sincere commitment on the part of both partners to work through their differences and to respect the fact that each is coming to the partnership for different reasons. Through discussion and creative thinking, NGOs can keep their idealism or ethical standards while businesses can keep an eye on the bottom-line.

- Partnerships are a process, they proceed on a daily or weekly basis. The most successful partnerships are not just financial but are real program partnerships. If possible, there should be a team approach, involving people from different perspectives from both organizations who work together from conceptualization through implementation with a two-way flow of information. Projects that start off without this level of equality often experience a year or more of start up problems until a level of trust and collaboration is in place.

- Partnerships are incremental. They start with small agreements and activities and grow over time. Substantive partnerships often result from various other types of collaboration that lead to trust on both sides. Partnerships are implemented in the field between local business representatives, NGO staff, and the community. While partnerships are implemented in the field, they need a "champion" at corporate headquarters and in the NGO to embrace the concept.

- Both partners should be prepared to make a commitment of time and resources before the collaboration takes off. Companies may need to do research on new products or packaging, NGOs may need to invest in training programs, community work, and other start-up costs. It is important that both partners be well established and financially sound enough to weather the start-up.

- Successful partnerships often require support and buy-in from several levels in both organizations. In the initial stages of a partnership, it is Important to consider all the stakeholders (individuals and divisions) within each partner. Corporate policy can support the concept but each project needs a champion to advocate for its success within each partner.

- The motives of each partner must be clear to the other. Businesses motives may be public relations, marketing, production, or human resource development. The NGO needs to be clear about its social objectives. It is fine for the two parties to have different objectives as long as they are known and respected by the other partner.

- Success breads success. Under the old donor-grantee model, there was a limited amount of money and NGOs were forced to carry out the objectives of the donor and compete for scarce resources. Under the new model, the more success we can document, the more businesses will want to work with NGOs and the resources will be virtually unlimited. NGOs will be free to work on a much broader range of social problems. Partnerships can lead to creative new solutions to problems not possible under the current system. Business people talk with other business people and success with one business can lead to discussions with other potential business partners.

- Partnerships are between institutions, not individuals. The people directly involved in the project have to continually reach out to others in the business or NGO to assure that they know about and are involved in the project in as many ways as possible.

- NGO staff will need different skills than they have in the past. They will have to be much more knowledgeable about business concepts and tools than most are today. Partnerships are negotiated by program staff but their team may include fund raisers and people with strong technical skills in the sector. Those involved on both sides should have good human relations skills, be willing to listen, and be flexible.

- No two partnerships are the same. Each will be unique and adapted to the particular needs and resources of the business, community, and NGO.

- The greater the benefit of the project to the business, the more sustainable the project and the greater the potential for expansion. The project must have value to both sides, not only good for business but also with some social value.

- Companies know little about community development and most NGOs know little about the specific business of their partner. Each side has to educate the other as they go. The creativity in finding solutions to problems often comes from the NGO.

- NGOs working with business partners have to continually revisit and possibly revise their mission as new opportunities arise.

- In the future, there will be more workplace-based services (health care, housing, child care, non-formal education) and less emphasis on community-based services.

About the Speakers

Steve Waddell works on intersectoral collaboration for the Institute for Development Research at Boston College. He earned a Ph.D. in Sociology and a MBA. He has studied in France, Switzerland, Taiwan and China.

Raised in Vancouver, he started his professional career in print and radio journalism. From there, he moved on to various leadership positions in the finance industry where he was particularly interested in bank relationships with communities. At various times, he has organized a labor arts festival, a social investment fund (now Canada's largest), and as director of Vancouver's largest financial institution, he supported the development of one of the country's most sophisticated community economic development initiatives.

Prior to joining IDR, as a professor at Boston College he started an executive management program with the School of Management, the Department of Sociology, and various employers. That 11-month program works with middle and upper level staff who are advanced in their careers who are undertaking major change projects within their organizations. He is just completing a major study of intersectoral partnerships in Madagascar, India, and South Africa which forms the basis for his presentation at the seminar.

Cheryl Lassen has worked in international development for over 20 years, particularly in the areas of small business, microenterprise, microcredit, and now, in social enterprise. She holds a Ph.D. in Agricultural Economics and Rural Sociology. She is currently the president of Lassen Associates, a small group of dedicated professionals who are looking for innovative solutions to poverty alleviation. Lassen Associates is a principal partner in the Sustainable Development Services Over the past four years, she and her firm have concentrated on business models for nonprofit organizations and works with individual organizations to review their grant dependency and find ways to recover costs, market services and products, increase scale, and become more entrepreneurial in their work. For many years she worked with Partnership for Productivity, one of the first nonprofit organizations committed to microenterprise and microcredit programs. She was one of the principles in the formation of the Small-Enterprise Evaluation (SEEP) network. She has worked in countries world-wide but with specific emphasis on Africa.