



Social Enterprises for Watchdog Organizations

Who Will Feed the Watchdog? Or can you feed yourselves?

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Food for thought:

3. What are the pros and cons of social enterprise for you?
5. Are there any special challenges that watchdog organizations face with social enterprises?
7. How can they be overcome?



NESsT mission

NESsT works to solve **critical social problems** in emerging market countries by developing and supporting **social enterprises** that strengthen civil society organizations' **financial sustainability** and maximize their **social impact**.



NESsT Initiatives

1 NESsT Venture Fund

Philanthropic investment funds supporting social enterprise portfolios in emerging markets.

2 NESsT “University”

Promoting accountability, innovation, leadership and professionalism in the field

3 NESsT Consulting

Providing professional services in social enterprise development

4 NESsT Marketplace

A global on-line shopping directory of social enterprise products & services



What is self-financing & social enterprise?



What is Self-financing?

Strategies that CSOs use to generate their own revenues and further their mission impact

Self-financing strategies can be mission or non-mission related



Methods of Self-Financing


METHOD	EXAMPLE	PROFITABILITY/RISK
<p>Membership Dues A fee collected from nonprofit members or constituents in exchange for some kind of product or service or other benefit.</p>	<p>Your nonprofit provides a magazine to members and/or offers other membership services or products, such as networking, organizational support, trainings, recommendations, etc .</p>	<p>Membership dues resemble an individual donation. The difference between the two is that the CSO provides something in return. This is often the least time consuming and risky, but lucrative method. At the same time it normally only draws on constituent group, which can be limited.</p>
<p>Fees for Services Fees charged by the nonprofit in exchange for a provided service, oftentimes a service capitalizing on some existing skill or expertise of the staff.</p>	<p>Your nonprofit provides consultation services or trainings to individuals, CSOs, businesses or government agencies.</p>	<p>The true profitability of services is often difficult to calculate as many are subsidized by donations/grants. Pricing structures may be such that paying clients “subsidize” nonpaying or lower-paying clients (i.e., cross-subsidy). Services are often the most time consuming strategy but potentially lucrative.</p>
<p>Product Sales Selling products produced by or for the nonprofit’s constituents; reselling donated products; or producing and selling new products.</p>	<p>Your nonprofit (re)sells publications or products produced by your or for your constituents.</p>	<p>The social costs of making the product can be significant and they are therefore often subsidized by grants. Most often is only lucrative if done on a relatively large scale.</p>



Methods of Self-Financing (continued)

METHOD	EXAMPLE	PROFITABILITY/RISK
<p>Use of Hard Assets</p> <p>Renting out real estate, space/facilities, vehicles, equipment, etc. when not in use for mission-related activities.</p>	<p>Your nonprofit rents out its conference room as space for trainings, workshops or meetings.</p>	<p>Hard assets can provide a stream of revenues while also appreciating in value (although they can also depreciate). Hard assets can also pose some risk as they must be maintained from wear and misuse.</p>
<p>Use of Soft Assets</p> <p>Generating income from your intellectual property: methodologies developed by you, patents, licensing agreements, royalties or endorsements.</p>	<p>You develop a training method that you sell for others groups to use in their trainings.</p> <p>You get royalties after articles written by you and syndicated to other magazines.</p> <p>You endorse a product, lending your name in exchange for a royalty fee.</p>	<p>Use of soft assets can be lucrative but can be highly risky, particularly as your organization's reputation and public image can be at stake.</p>
<p>Investment Dividends</p> <p>Dividends from active or passive investments of financial resources (e.g., savings, endowments, reserve funds, etc.).</p>	<p>Your nonprofit invests its savings in high-yield interest bearing accounts or mutual funds.</p> <p>You receive or create and endowment fund.</p>	<p>Few nonprofits have reserves or excess income, but some invest program funds not currently in use on a short-term basis. Stock-market investment can be highly risky, but maximizing income from interest-bearing accounts can be low risk.</p>

Spectrum of Self-Financing Activities

Related to CSO Mission

Less related to CSO Mission

Program Activities	Existing Product/Service Existing Customers	New Product/Service Existing Customers	Existing Product/Service New Customers	New Product/Service New Customers
Services specified in the CSO charter, bylaws, mission	Earned income directly from the CSO's program activities	New products/services offered to the existing CSO constituents	Extension of the mission-related activities of the CSO to new paying clients	New product/service to new paying customers (unrelated/ ancillary business activities)
Example:	Example:	Example:	Example:	Example:
<i>CSO specialized in Environmental Law offers free litigation services to threatened communities.</i>	<i>CSO specialized in Environmental Law asks for a honorarium or success fee for litigation services.</i>	<i>CSO specialized in Environmental Law offers trainings on investment and environmental issues to municipal officers, or community organizations</i>	<i>CSO specialized in Environmental Law offers litigation services to paying individuals in private quarrels.</i>	<i>CSO specialized in Environmental Law opens an ice-cream parlor in the city center.</i>



What are the benefits and challenges of social enterprise?



Benefits of Social Enterprise

1. Increased income	If/when a social enterprise venture is “profitable.”
2. Diversified revenues	social enterprise can help diversity your funding base and help reduce dependence on fluctuating funding sources.
3. Greater flexibility	Unlike many grant sources, social enterprise income is “unrestricted.”
4. Improved overall organizational performance	Financial and managerial discipline required for social enterprise can also improve overall nonprofit efficiency, planning and systems
5. Positive impression on donors	Many donors like to see that a nonprofit is making a concerted effort to generate some of its own resources and diversify income.
6. Strengthened board	social enterprise can help engage board members and make use of their experience and skills in the business world.
7. Increased visibility	Marketing for social enterprise can also help reach new audiences for the nonprofit and its mission.
8. Increased self-confidence	Nonprofit leaders and staff gain confidence from the realizing they have the ability to generate income for their mission



Limitations of Social Enterprise

1. Not appropriate for all nonprofits	For whatever reason (ideological, financial, ethical, capacity, etc) social enterprise may not be appropriate for you.
2. It's not easy	If making a profit were easy, everyone would already be doing it.
3. Not for nonprofits that are in a financial crisis	Social enterprise requires a certain level of financial stability and expertise that not all nonprofits have.
4. Not a way to get "quick money"	Social enterprise is a long-term financing strategy; it may take several years before a financial return is realized
5. Not risk free	Any kind of business activity is vulnerable to economic conditions, market fluctuations, etc.; and, if not well managed can place at risk a nonprofit's reputation and/or financial integrity.
6. There is no recipe	Social enterprise is very specific to each nonprofits capacity, expertise, mission, skills, etc. There is no formula for success;
7. Can cause internal conflicts	Social enterprise activities can cause a variety of internal organizational cultural dilemmas and or ideological/ethical conflicts with your mission.



What are the special challenges watchdog organizations face?



Special challenges for Watchdog organizations

1. Target group/beneficiary dilemma:

- Beneficiaries can often not afford to pay
- Commercial clients can raise ethical issues, clash with beneficiaries
- State can endanger independence

2. Mission-relation:

- Watchdog organizations are very often highly ethical, which raises concerns about non-mission related social enterprises

3. Public image:

- Emphasis on independence, impeccable image, public trust
- Can face bans on commercial activities, advertising

4. Internal dilemmas/conflicts



Special challenges for Watchdog organizations: Solutions





Special challenges for Watchdog organizations: Solutions

- ✓ **Offer social enterprise to (new) beneficiary groups**
 - ✓ Vast and highly specific expertise of watchdogs (e.g. legal analysis, capacity-building, publications, etc.)
 - ✓ High level of organizational development can help SE (e.g. contact management software, trainings and consulting)
 - ✓ Opportunity to cross-subsidize or enhance network services (e.g. differential price-scale to target groups)
- ✓ **Completely non-mission related social enterprise**
 - ✓ Avoid beneficiary issue whatsoever; can require extra openness and planning though!
- ✓ **Spin-off: Create separate entity for SE**
 - ✓ Legally allowed and can increase transparency, separation of resources, tasks and finances
 - ✓ Circumvent beneficiary dilemma, public image issues, or bans



Special challenges for Watchdog organizations: Solutions

✓ **Make a PACT:** Plan, Analyze, Communicate, Team-

MISSION AND CORE VALUES

Anticipating and preparing for the potential implications of social enterprise for your mission and core values.

ORGANIZATIONAL SUPPORT

Assessing the support for social enterprise among your key organizational stakeholders (i.e., staff, board, members, donors, etc.)

ORGANIZATIONAL CAPACITY

Assessing whether your organization has the sufficient skills, experience and capacity to undertake planning and running a social enterprise.

FINANCIAL READINESS

Assessing whether your organization has sufficient:

- financial health/stability/felxibility; yand
- financial systems needed to undertake planning and running a social enterprise.



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**Thank you for your
attention!**

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