

NGO NEWS

Linking Environmental Policy Concerns & NGO Institutional Development

SPECIAL ISSUE

MAY 1988

BUSINESS VENTURES FOR NGOS

Many non-government organisations (NGOs) in the Eastern Caribbean are searching for new sources of funds. Many have considered some form of business enterprise to provide income and to give a new dimension to traditional programmes. Starting a business is a high risk undertaking, however; only a few community-based non-profit groups have done it successfully. This special issue of NGO NEWS provides suggestions to local NGOs interested in setting up an income-generating business.

BEFORE STARTING

Some of the risk involved in business ventures can be avoided by careful planning before getting started.

Economic Conditions

Any new business is especially vulnerable to the general economic climate. Is the economy stable, growing or diminishing? More particularly, is the sub-sector targeted for the business activity growing fast enough to accommodate new competition? For example, is there enough growth in the tourism sector to support yet another new gift shop? Examination of the wider economic environment can also lead to more focused business plans.

Too Many Objectives

The biggest problem faced by businesses founded by non-profit organisations is the tendency of NGOs to promote multiple and often conflicting goals within the business venture. For example, the organisation wants to be democratically structured, it wants to employ low income people, it wants to use renewable solar energy, and it wants to patronize firms run by members. It does not take long for these competing objectives to overwhelm the NGO's chances to generate additional revenues.

The NGO's business activity will be in direct competition with more "single-minded" business operations pursuing traditional profit-making objectives. The NGO will face most of the same risks as its competitors, and attempts to achieve complex social goals within the structure of a money-making venture will increase competitive risks for the NGO.

If, however, the NGO's business is successful in generating revenues, the organisation is free to utilise earned income to advance its community service activities. The critical point is that the costs of pursuing the group's non-profit objectives within the business venture may become excessive and may even diminish (not enhance) the capacity of the group to attain the primary goals for which it was established.

Unrealistic Expectations

With few exceptions, the major benefit to an NGO from the operation of a business is the income generated by the activity. However, too many people have grossly exaggerated ideas of the profits earned by any business activity.

If an NGO needs to earn \$10,000 a year to support its public service programmes and it decides to set up a gift shop selling local crafts, that business would have to gross between \$120,000 and \$150,000 to earn \$10,000 profit.

And when start-up costs are high, free-standing businesses are risky, diverting time, attention, and energy from the

ISSUES TO CONSIDER BEFORE STARTING

NGO's major purposes. In most cases, it would advance the group further to invest its energies in direct fund raising of the \$10,000 than in setting up a \$150,000-a-year business.

The trick is to find a business based on an activity which closely complements what the organisation does anyway. For example, an historic preservation group might sell a series of prints, drawings, photos, or monographs on vernacular architecture or a sports club might establish a scuba dive tank inspection and testing service.

Other Factors

Before getting too deeply involved in planning a business enterprise, the NGO should consider the following:

Time. It may take anywhere from one to five years to begin to realise significant returns from an enterprise. Can the group wait that long?

Money. Almost any business venture will require the investment of significant amounts of capital. What sources of venture capital can the NGO tap? At what cost?

Ownership structure. How will the business be structured? It should not conflict legally or administratively with other NGO activities.

Organisational readiness. Is the NGO large enough, mature enough and clear enough in its own mission that it can afford to be distracted by a new venture with a different purpose?

Staffing. Who is actually going to do the work? Without a manager, the enterprise will probably fail – someone (not a committee) must be in charge. But it will be difficult to find a manager who combines the necessary entrepreneurial skills with a commitment to the larger goals of the NGO.

SORTING THROUGH CHOICES

Look for a business opportunity which carries the lowest possible risk for your particular organisation. This does not mean the business won't be run aggressively, but it does mean that the purpose of the planning phase should be to eliminate unnecessary risk.

Note also that the NGO might want to consider a business activity as opposed to a full-fledged business enterprise. Many Caribbean NGO's have done this successfully, for example, the St. Lucia Naturalists Society's "nature walks" or the sale of cookbooks by the Montserrat National Trust.

In looking at options, it is important to select opportunities which keep the initial investment low. The NGO should finance most growth from retained earnings and should choose a business it can move into one step at a time, based on what the group already does or knows well. Consider what is already being done free but which might have a market value.

As the organisation investigates each step in the planning process, write down the results. This process gives everyone a chance to review conclusions, and the document produced may form the basis for a business plan which banks and others will want to see.

Purpose and Objectives

Keep it simple. One purpose and one objective are enough – for example: purpose is to set up a scholar fund and the objective is to generate \$5,000 income per year for the fund. Identify the net income required to meet the objective, the expected gross turnover, and the maximum time frame within which to accomplish the goal.

Strengths

List the major acknowledged strengths of the NGO and its active membership, such as specialised knowledge or expertise. This task demands creativity.

Markets:

Turning Strengths Into Products

A key question is: who wants and can pay for the product (or service) the NGO can sell. Turning the group's special strengths or skills into a business is essentially a task of identifying who wants to pay enough to make the venture worthwhile.

Notice this discussion does not ask who needs or should have the NGO's product. "Wants" and "needs" are important topics, but they are irrelevant to questions of market viability.

Trying to sort through marketing issues takes constant brainstorming and ruthless paring down. Focus on the easiest, the simplest opportunity – and think small to begin.

Get Help

At some point in the planning process, it is important to get help from an outside, objective source. No amount of planning or studying can substitute for dialogue with a good advisor. Persons with two kinds of background are important :

(1) Experience in starting and administering small businesses in the Eastern Caribbean. It would be ideal if the advisor knew both small business operations and the special problems of non-government organisations, but this combination of skills is not very likely.

(2) Expertise in the technical specialties most critical to getting the business started.

For assistance, try local businessmen and professionals; re-patriates who have returned home after working overseas; and expatriate residents, including retirees. Try the local Chamber of Commerce or National Development Foundation (also NGOs) or the regional Chamber of Industry and Commerce in Barbados.

Summary

At this stage in its investigations, the NGO should have written answers to the following questions:

(1) What business activity is the NGO capable of pursuing?

(2) Who are the potential customers? What price can they pay? How fast is the market growing?

(3) What are the major obstacles to getting started? Who is the competition? What documentation exists about their operations?

(A) How much start-up capital is required? How much for physical plant, equipment and working capital? Possible or likely sources of capital? When available?

(5) What is the estimated net return from this venture to the NGO? Is it enough?

(6) How much staff time (paid and volunteer) will it require to get this venture underway? Can the NGO afford it? Would the same effort expended differently earn more return? Who will actually run the business? If they quit, what will happen to the business?

(7) Does the business venture present legal or public relations problems for the NGO? (If the NGO is a public charity, it would be best to consult an attorney to assure that its charitable status does not conflict with the operations of the proposed venture.)

Business Plan

If the proposed venture still seems like a good idea, the next step is to develop a detailed business plan. If the NGO has access to a banker, attorney, or

accountant among its members, these persons should be consulted for assistance. It is also important that the current fiscal operations of the NGO are sound and run on a businesslike basis – before starting a new venture.

As a minimum, a business plan should include preliminary budgets, funding sources, projected cash flow, and projected profit/loss for the first three years. A contingency plan of operations should be developed.

Financing

The best way to solve a new venture's financing problem is to design the start-up so that up-front cash is not required, usually by basing the venture on a direct spin-off of the NGO's current operations. Other possibilities for small amounts of seed capital are to seek loans from some of the NGO's members. Don't neglect to approach local banks and businesses, which may be happy to support (or go in partnership with) a viable organisation with experienced and respected leadership. Also check with religious or civic groups, particularly those whose overall social objectives are similar – such sources can sometimes be quite forthcoming if asked for a loan rather than a straight grant.

SOME POSSIBILITIES

The safest, most obvious way for an NGO to earn income is to charge for services it is already providing. In doing this, however, the NGO must be careful not to sell services to outsiders at the expense of programme goals.

The following are some suggestions for products or services which might have a market in the Eastern Caribbean for NGOs with expertise in conservation, environmental affairs, historic preservation and related programme areas.

Repackaging Skills for Another Market

- For hotels and resorts, document marine and terrestrial environmental

attractions and amenities; develop tour guides for these sites.

- For developers and government agencies, provide environmental impact assessments for new projects.

- For government agencies, architects, landscape planners, developers, provide historical research or environmental background data.

- Market environmental monitoring or on-going project assessment services for appropriate development activities.

- Provide specialized guide services or tours for visiting groups: bird watchers, divers, hikers, bikers, campers.

Publishing

- Maintain an archive of old photos or nature photos for sale to visiting journalists, researchers, or tourists.

- Market a series of attractively printed monographs on unique local features and amenities through tourist outlets.

- Market reproductions of historic or artistic works related to the island.

- Prepare a catalogue of locally produced crafts.

Adaptive Use

- If the NGO has rights to property, consider alternatives for aggressively developing lucrative "adaptive uses" of the property – e.g. restaurants, gift shops, lodgings, art galleries and the like – as has been done successfully at Nelson's Dockyard in Antigua or the evening dinner show at the Barbados Museum, for example.

Background information for this newsletter taken from a booklet by the Centre for Community Change, which local NGOs can request from Island Resources Foundation.