

Global Trends in Financing the Social Sector:

How Successful Social Entrepreneurs Mobilize Resources and Leverage their Ideas

Author:

Mirjam Schöning

Director

Schwab Foundation for Social Entrepreneurship

Route de la Capite 91-93

1223 Cologny / Geneva

Switzerland

mirjam.schoening@schwabfound.org

<http://www.schwabfound.org>

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

OVERVIEW	3
1 THE CURRENT SITUATION: LESS FUNDS, MORE NONPROFITS AND THE “STUCK IN THE MIDDLE” PHENOMENON	4
2 FINDING NEW WAYS TO MOBILIZE RESOURCES	5
2.1 OVERVIEW	5
2.2 SALE OF PRODUCTS AND SERVICES	6
2.3 COLLECTING FEES	7
2.4 RAISING IN-KIND RESOURCES	8
2.5 PARTNERSHIPS	9
2.6 CREATIVE FUNDRAISING FROM THE PUBLIC	10
3 EXPANDING DESPITE RESOURCE RESTRAINTS	10
3.1 FRANCHISE MODELS	10
3.2 DECENTRALIZED NODES / SYTEM OF AFFILIATES	10
3.3 PARTNERSHIPS	11
4 INCREASING TRANSPARENCY AND MEASURING IMPACT	11
ANNEX	12

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 world.² 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.

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.

¹ While 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”² selected by the Schwab Foundation for Social Entrepreneurship as well as Ashoka Fellows, identified and supported by Ashoka, Innovators for the Public.

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 1990’s, 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	§ Mission related	IRUPANA, Bolivia
	§ Beneficiaries are customers	Project Impact, USA
	§ Export-oriented	APAEB, Brazil
	§ Not linked to the mission	Population and Development Association (PDA), Thailand
Fees/ cost recovery	§ Membership fees	Self Employed Women’s Association (SEWA), India
	§ Licensing fees	All fairtrade/ Max Havelaar organizations Phulki, Bangladesh
In-kind resources	§ Goods for programs or operations	CDI, Brazil CHETNA, India
	§ Technical assistance and expertise	Bily Kruh Bezpeci, Czech Republic
	§ Volunteers	CityYear, USA
Partnerships	§ With businesses	ASAFE, Cameroon
	§ With governments	Childline Foundation, India
	§ With local communities	EcoClubes, Argentina
Raising funds from the public	§ Special events	Endeavor, USA
	§ Additions to customer bills (hotel, electricity bill, cell phone bill, ...)	Habitat for Humanity, USA

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

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 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 marmelades, 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 Radoncic, 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, give 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, 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 operation 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 spend 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 nation wide. One such example is Childine 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 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 are 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 / Sytem of Affiliates*

The system of setting up decentralized nodes each responsible for itsr 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 story-telling 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.

ANNEX

PROFILES OF SELECTED SOCIAL ENTREPRENEURS

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
- § Self-Employed Women's Association, India
- § Population and Development Association (Thailand)
- § 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