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CorCom

Partnerships with Business:

A Practical Guide for Nonprofit Organizations

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INTRODUCTION

The purpose of this book is to draw together the experience I have had as director of the Corporate Community Investment Service (CorCom) over the past two years CorCom's objective is to facilitate linkages between businesses and nonprofit organizations Over these two years, my colleague Martin Hewitt at USAID and I have had the opportunity to interview dozens of people with experience in some aspect of corporate community investment or partnerships between business and nonprofit organizations We have read case studies of partnerships, and talked with individuals who have first-hand experience in these joint ventures

When CorCom started, there was no body of knowledge about how partnerships really worked While there was, and still is, a lot of rhetoric about how important partnerships are, no individual or organization was trying to bring together the practical aspects of a partnership between organizations with differing languages, cultures, values and ways of operating CorCom fills that gap by focusing on the nature of the partnership, not the sector or location

Historically, there have been many partnerships between business and nonprofits, particularly in the field of health Fortified foods have been a staple of nutrition programs for many years, and the social marketing of contraceptives and oral rehydration solutions for children with diarrhea have become standard partnerships Private sector firms have been involved in agriculture overseas as suppliers of seeds and chemicals More recently in Africa, factory owners and plantation farms have seen the value in reproductive health care and HIV/AIDS education for their workers

While there are many success stories, there is also a long history of failed partnerships Many of these efforts failed because there was no information on how two (or more) organizations with very different languages, values and operating styles could work together successfully We hope that this book will enable more partnerships to be successful

CorCom became more formal in February 1998 when a grant from the Office of Private and Voluntary Cooperation, Bureau of Human Resources at the U S Agency for International Development made it possible to organize some formal events around specific issues in partnerships With the full involvement of Martin Hewitt, the grant also allowed CorCom to sponsor three day-long seminars on specific issues in partnerships getting started, lessons learned and ethical considerations These seminars were attended by about 50 people and featured highly experienced speakers and participants with a wide range of experiences

The grant from USAID also allowed CorCom to sponsor a learning network of practitioners who meet monthly to share experiences and learn from each other The CorCom network is a group of about 20 U S -based development organizations, all of which 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 in the seminars The cases included a range of roles for NGOs, including marketing of products (e g , agricultural supplies, condoms, fortified foods), facilitating contracts with artisans and local producers, economic development (microcredit programs), housing for factory workers along the Mexican border, and community development near oil refineries The cases came from Latin America, the former Soviet Union, Africa, India and Asia At one of the network meetings, the group developed a list of lessons they had learned from their experiences Those lessons are incorporated in the text of this book

Appendix B is a series of case studies that exemplify the win-win, beyond philanthropy approach These cases are referred to throughout the text but also give an overview of the new approach that is sometimes best understood through examples The cases come from the CorCom network and from my own research The members of the network are listed in Appendix D

This book is an attempt to tie all these strands together into a practical guide for practitioners who have not been able to attend our meetings Much of the material comes directly from presentations at the seminars or network meetings, as indicated with footnotes This includes material from David Logan and David Clark on the subject of getting started, Cheryl Lassen on becoming more businesslike, and Laurie Regelbrugge, Joan Dubinsky and Richard Campanelli on ethics For more information about these people, their work and their contact information, see Appendix A Appendix C is a list of publications and references on these topics, many of which were written by the seminar speakers

This book is a work in progress since it is based, at this point, on a limited body of experience I hope that those who read the book and have experiences to add or who have differing opinions will contact me so that those experiences can be incorporated into subsequent drafts of the book My contact information is included in Appendix D

Because our funding comes from USAID and because my own experience is in international development, this book is aimed at international development organizations, but we believe that the principles apply to any nonprofit organization interested in working with businesses CorCom focuses on the relationship between the business and the nonprofit from the nonprofits' point of view We hope to have the companion volume from the businesses' point of view CorCom does not focus on a specific sector such as health, agriculture, crafts or microcredit Similarly, we do not focus on any particular part of the world We believe that there are certain common issues in partnerships no matter where they are and no matter what types of activities they are carrying out

I am very grateful to Mary-Lynne Lasco, communications manager at INMED, for editing, formatting and seeing this book to press

Step One CHANGE YOUR WAY OF THINKING

Step Two: WHAT DO YOU HAVE TO SELL?

Step Three: BECOME MORE BUSINESSLIKE

Step Four: CHOOSING A PARTNER

Step Five: ETHICAL ISSUES

Step Six: MAKING CONTACT

Step Seven: NEGOTIATING THE DEAL

Step Eight IMPLEMENTATION

Step Nine: THE ROLE OF GOVERNMENT

Step Ten: CELEBRATE SUCCESS

Step One:
CHANGE YOUR WAY OF THINKING

Understanding the new paradigm

Before moving ahead with a potential partnership, it is important to understand that this is a new paradigm for development You will need to re-think almost everything you currently do Most nonprofit organizations now operate on grants from donors To get money, they must convince a foundation (Ford, Kellogg), a bilateral government organization (USAID, CIDA, ODA), or multilateral organization (World Bank or various UN agencies such as UNICEF, UNDP) that people are suffering and that their organization, if given funds, could help alleviate that suffering This is the philanthropy model of development that has been used as long as development programs have existed It is the model of the past

Over the past few years, the global economy has changed dramatically The Soviet Union fell apart, more companies have become multinational, and business now operates on a global scale with parts manufactured in one place and assembled in another Large, sophisticated businesses are developing in countries that were formerly underdeveloped or centrally planned

Businesses have a strong interest in economic and social development as they expand their markets into underserved areas of developing countries where most of the world's population lives Businesses want people to have discretionary income so they can purchase clothing, soft drinks, computers and other products They want people to be healthy and educated so they will have an ongoing supply of workers and consumers In other words, businesses now have the same objectives as development organizations

As shown in the matrix on the following page, businesses used to give some of their profits to charity because early industrialists such as Ford and Carnegie felt it was the right thing to do In this "first generation" of philanthropy, their foundations tended to be quite separate from their businesses, focusing on the arts and various charitable causes unrelated to their work Over time, businesses moved into the "second generation" of philanthropy, becoming more strategic in their giving, targeting communities or activities that related to their business, and making contributions that were more systematic and more closely linked to the long-term self-interest of the company Many companies today remain at the first and second generations of philanthropy Most large companies have some programs that would fit in the first generation and others that are in the second

But there is now a strong movement in the business community to move into the "third generation" of community investment and direct self-interest They become involved in activities not because it is the right thing to do, but because it directly improves their business

Evolving Corporate Relations with Communities

	First Generation	Second Generation	Third Generation
Purpose	Philanthropy	Strategic philanthropy	Community investment
Motive	Morality	Long-term self-interest	Direct self-interest
Strategy	Ad hoc	Systematic	Strategic
Staff	Administrator	Manager	Entrepreneurial/consultants
Structure	Detached from business activities	Part of line structure	Integrated as part of business functions
Initiative	Passive	Responsive to requests in target areas	Active - initiatives programs
Contribution	Cash	Cash and donations of goods	Business resources, skills and cash
Sustainability	One-time assistance	Assistance in specific sectors	Capacity building of NGOs

The Evolution of Development Organizations

	First Generation	Second Generation	Third Generation
Purpose	Welfare	Development	Community investment
Motive	Charity	Human resource development	Integration of poor into national economy
Strategy	Ad hoc	Systematic	Strategic
Staff	Administrator	Manager	Negotiators between business and community
Structure	Affiliated with churches or independent	First-Third World partnerships, grant management	Nonprofit but managed using businesses standards of efficiency
Initiative	Actively identify social problems	Responsive to requests in target areas, carry out donor objectives	Active - works with community and business to develop activities that benefit both
Contribution	Goods and financial assistance for the poor, often from individual contributors	Grants from donors for specific activities with some cost recovery and fee-for-service	Technical resources, community contacts and mediation with businesses
Sustainability	One-time assistance	NGO-donor partnerships	Facilitate NGO-community-business partnerships

Concurrently, as businesses have evolved from philanthropy to community investment, the development community has also changed its focus from charity to development No longer do development organizations simply give food, clothing and other resources to the poor Rather, they teach people to solve their own problems by organizing their communities, developing leadership skills and attracting resources to solve problems More recently, some development organizations have moved to the third generation of strategic community investment, working directly with companies to improve business while also solving social problems

Curt Weeden, former Vice President for Corporate Giving for Johnson and Johnson says that business contributions for philanthropy are dwindling because companies do not connect their giving to their business In his book, Corporate Social Investment[1], Mr Weeden says that in 1997, companies gave only 1 1 percent of their profits to charity, down from 2 3 percent in 1986 He argues that corporate leaders must realize that self-interested social investment is good for business

CorCom has always focused on strategic community investment and helping NGOs learn a new way of thinking about their work The new approach means a whole new way of doing business No more proposals, no more catering to donors' whims Under the new paradigm for development, NGOs and businesses develop joint ventures that are good for business while helping the NGO meet its objectives

> "Corporate philanthropy staff need to be trained to think about contributions as a business resource, not a drain on their company " — *Curt Weeden*

But the new approach means a whole new way of thinking that is difficult for people who are so familiar with the old "begging bowl" approach It means learning about business, writing business plans and learning to talk with businesses in their terms

A LESSON LEARNED

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

[1] Reported in the *Journal of Philanthropy*, June 4, 1998 The book is published by Berrett-Koehler Publishers and is available from Amazon com book service on the world wide web

The advantages of a business partner[2]

Historically, the relationship between business and NGOs has been either minimal or marked by conflict NGOs have characteristically aimed to limit and oppose the initiatives of business as being inimical to the well-being of people and communities At the same time, businesses have generally ignored the NGOs As shown in the tables above, however, the two parties increasingly have mutual interests in community development For NGOs, there are a number of benefits of business partnerships, particularly in developing countries, where NGOs may serve as partners of foreign investors who do not have intimate knowledge about local conditions Some of these benefits include

- **Influence over investment activities** The absence of NGO-business relations means that there are no forums for the exchange of ideas and the discussion of issues Cultural and socioeconomic divides mean that businesses that are foreign to the community or the country often do not understand local issues As a result, actions that stem from their unfamiliarity with local conditions may have an adverse impact on communities Building an *interactive* rather than a *reactive* relationship can help ensure that local values and customs are respected

- **Political support.** Increasingly, NGOs aim to influence government policy and change the rules of the game in order to help communities achieve their objectives By creating a relationship with investors, NGOs can learn more about their points of view and communicate community goals to avoid unnecessary antagonism When goals overlap, they can build lobbying partnerships with another key constituency

- **Access to financial resources** NGOs, by the nature of their work, are engaged in community building and creating an environment of stability that is critical for business success Many investors are from developed countries, where this contribution is recognized through philanthropy to community organizations However, this tradition is often ignored by venture capitalists, particularly when investing in developing countries Through dialogue with investors, NGOs can encourage the building of this tradition in developing countries as well

- **Payment for services.** There are opportunities for NGOs to become more directly involved with investment activities in ways that help both the NGO and the investor reach their independent goals NGOs can be paid for the work that they would like to do, which expands their ability to achieve their goals

- **Employment and economic development.** Opportunities for local benefits are often ignored by investors, in part because there is no means of organized representation that speaks to the needs of both parties In some cases, it is presumed the government will play this representative role, but governments often have other priorities and simply do not recognize

[2] These advantages were developed by Steve Waddell of the Institute for Development Research at Boston College He was speaker at the CorCom seminar on Lessons Learned

the opportunities as well as NGOs By working with investors, NGOs can help ensure that communities receive as many economic development benefits as possible

- **Access to low-income markets** Because business people are generally from middle- and upper-income groups, they tend to develop products and services only for these groups They fail to understand the needs and opportunities among lower-income groups and are unaware of the best way to reach them By engaging in joint product development, through which NGOs can help convey these needs, lower-income people can benefit from better access to broader markets

- **Community building and development.** The NGO traditionally sees development in both social and economic terms Not only are new buildings and business important, but so are ties, links and social relationships By building a relationship with investors who primarily value economic development, NGOs can bring important social links to the process

- **Access to expertise** Investors and their market sector partners have substantial specialized expertise that can be of help to NGOs, from accounting to strategic planning and technical information In addition to financial donations, companies are increasingly making their staff members available to NGOs through secondment and volunteerism

- **Innovative solutions to complex problems** Working collaboratively is difficult for the investment community and NGOs because they have different goals and perspectives However, when these differences are recognized and accepted, both parties can work on common ground and find innovative solutions to problems By working together creatively, both partners can accomplish their goals without increasing the resources necessary to do so

The diminishing role of government

Throughout the world, the role of government is decreasing while the role of business continues to increase David Logan[3] demonstrated that government expenditures currently account for only 34 percent of global expenditures, while for-profit expenditures account for 60 percent The nonprofit sector accounts for 6 percent, a figure that is growing as government sheds its responsibilities

There are several reasons for this trend toward increased private sector expenditures Foremost, under communism, the government controlled the economy and suppressed the nonprofit sector Also, government cannot distribute wealth if there is none to distribute and developing countries had little

[3] David Logan was a speaker at the first CorCom seminar He is president of Corporate Citizenship Company in London, a firm that specializes in helping companies with community investment strategies He has written several books on the topic

The need for the creation of capital has driven both the U S and the U K to transfer resources and remove obstacles to business Both Ronald Reagan and Margaret Thatcher broke unions, deregulated business, and removed legal and regulatory obstacles to business expansion At the same time, they reduced the size of government and the services it offered, with the assumption that the private sector would make up the shortfall

Another important trend is the increased globalization of markets Large businesses are driven by global markets, not just the market in the U S or Europe They are interested in creating product loyalty, and as a result the whole world now knows about Levis, McDonald's, The Gap, and product brand names such as Colgate and Tide Along with this trend has come greater interest in social responsibility on the part of businesses As businesses prosper, they have more money to put into social programs

At the same time, nonprofits are growing dramatically These organizations have become the watchdogs of business, using activism and public education to pressure businesses to be more environmentally sensitive, fair to their workers, and more responsible to customers Membership in advocacy, public education and environmental groups is at an all-time high Business and government widely lack public trust Nonprofits, on the other hand, do have the confidence of the public — and businesses are willing to buy into that trust through partnerships Businesses are very eager to have their names linked with worthy causes in an effort to build their income and their image with the public

A LESSON LEARNED

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 challenges such as job creation, employee health and education, and natural resource preservation But there will always be some problems that require a government solution, including national programs of education, family planning and health services Because 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 cannot do it all

Build support within your organization

Assuming you understand the new paradigm and are willing to learn a new way of developing programs, it is also important for you to gain the support for the new approach within your organization This may mean a systematic approach to educating your board, field staff and others

Many nonprofits have added private sector representatives to their Boards of Directors in the past few years Nevertheless, it may take some time and energy for you to educate your board about the new approach and gain their support for pursuing partnerships with business Many board members are most familiar with the older approach and are wary of something new, in fact, they may have been selected as Board members specifically for their expertise or experience in the old model of philanthropy Others in the development community may resist partnerships because they still see businesses as evil and ruthless

Another source of resistance within your organization may be your field staff or NGO partners, for the same reasons that Boards of Directors may resist When CARE was developing its partnership with Enron in India, its country director for India did not approve of the idea of working with an oil company While this resistance was eventually overcome, it did slow the progress of the partnership

Do not assume that others within the organization are familiar with the new model (they probably are not), and be aware that there are many individuals within the development community who see business as a problem, not a solution There is no easy way to win them over to the new approach, but a review of the case studies in Appendix B may help them see that this is a way for the nonprofit to achieve its mission

A LESSON LEARNED

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

Build support with NGO partners

Many U S -based development organizations carry out their work in other countries through NGO partners and community-based organizations If this is the case for your organization, be sure to consult with those partners before pursuing a business partnership When Pact began discussions with Nike about conducting HIV/AIDS education in Nike's Indonesian factories, Pact's NGO partners, many of whom had human rights agendas, were critical of the group for considering a partnership with a company with a terrible human rights reputation For this and other reasons, the partnership never materialized Similarly, when the Jane Goodall Institute began working with Conoco in Africa, many animal rights groups were critical of the partnership In this case, however, the partnership has become an excellent example of a win-win relationship, despite the criticism

Join business associations and service organizations

If you want to find potential partners and learn how to talk to them, you must move beyond your usual social circles and start going where business people go Business people and nonprofit staff tend to move in different circles Join business associations, attend business conferences and socialize in bars or clubs where business people relax Take an interest in their work and listen to the problems they have, and you may get new ideas for partnerships Read the business sections of the newspapers to learn who's who in your local business community

... move out of your usual social circles and start going where business people go.

You can also become active in service organizations such as Lions or Rotary Clubs and the Chamber of Commerce Such organizations are a good place to learn the language, culture and players in the business community Not everyone you meet will lead to a partnership, but business people talk with each other and they may be able link you with someone who does become a partner Joining these groups also provides an opportunity for you to educate them about your work and some of the services that nonprofits can offer business

Learn to speak business

Businesses and NGOs each have their own language and values As Steve Waddell points out, business answers to its owners, and the bottom line to owners is profitability Business is interested in private good Civil society (NGOs), by contrast, answer to the community, are concerned with processes — for NGOs, the bottom line is group good A key to successful partnerships is recognizing that businesses and NGOs have different objectives and answer to different masters Good partners are fully aware of the other partner's goal and do all they can to help them reach it

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Step Two:
WHAT DO YOU HAVE TO SELL?

The business advantage of an NGO partner

What do you have or do that a business would pay you for? As an NGO, you have two things to sell your technical experience and your credibility In most partnerships, you are selling some of both Companies want to be your partner because they need your expertise in health, housing or agriculture or your contacts in remote or poor communities They also like to be associated with an organization that has a good name As discussed later in Step Seven, your experience and your reputation have an economic value to the business As indicated in research conducted by the U S -India Business Council[1], partnerships with nonprofits can bring a variety of direct benefits to businesses, including the following

- **Develop a local identity** Corporate partnerships with effective NGOs help to build trust and communications in the communities where both entities operate

- **Anticipate and respond strategically to grassroots sentiment.** By building trust and working with established community leaders, corporations can develop sensitive lines of communication that allow a problem-solving approach to emerging conflicts

- **Shape public perceptions.** Ongoing collaboration with prestigious NGOs can be a cost-effective way to enhance a company's reputation

EXAMPLE CARE's partnership with Enron in India is a case in which the community had great animosity toward the oil company's operations However, when Enron began working with CARE on economic and community development, cases of vandalism and property destruction decreased and community support for the company among local leaders and community members increased. Shell/Nigeria is currently undertaking its own community development program for the same reasons Gas and oil companies entering new areas such as the Caspian Basin are learning from the experiences in Nigeria and Colombia and are seeking NGO partners to prevent problems before negative sentiments develop

- **Strengthen the human resource base of the local community.** Training and small capital investments can enable NGOs to develop vocational employment programs that help support a company's local operators

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[1]An Introductory Guide to Corporate Partnerships in India by Michael T Clark, Dharmesh Vashee, Janet Glover and Nisha Narayanan, December 1997 The U S -India Business Council is part of the U S Chamber of Commerce

- **Leverage financial and other investments in local communities** Because NGOs can mobilize vast reserves of good will, small financial investments can have tremendous reach

EXAMPLE Phillips Van Heusen Company and its partner, American Jewish World Service, made dramatic changes in Pedro Sacatepequez, a depressed Guatemalan town where Van Heusen operates a clothing factory The town was dying as young people migrated to other cities, and the company was unable to attract the quality workers it needed. By investing in local schools, Van Heusen helped turn the town into a dynamic economic center where other businesses have developed, and people are now migrating to the revitalized town rather than away from it

- **Build the brand.** Demonstrating company products in partnership with local NGOs serves as a social marketing strategy

EXAMPLE Eli Lilly, Inc is working through the American International Health Alliance in partnership with hospitals in Dubna, Russia on an innovative program of diabetes self-management, a concept previously unknown in Russia. Through this program, which has been expanded to several locations in Moscow, diabetics use Eli Lilly's insulin The program has not only created a market for the product, but has dramatically reduced the incidence of diabetes-related hospitalizations In addition, NGOs can also help develop markets in the U S For example, Aid to Artisans links distributors in the U S with craftspeople around the world.

- **Increase social capital.** NGOs provide access to local networks and multiply opportunities for the exchange of information

EXAMPLE One of best examples of a win-win situation is the case of Star margarine in the Philippines, through a partnership among the Johns Hopkins University, Procter and Gamble, the Nutrition Center of the Philippines, and Helen Keller International At the request of its NGO partners, Procter and Gamble began to fortify its margarine, Star, with Vitamin A However, the product was packaged in tins too large for poor people to afford. When the NGO partners asked Procter and Gamble to market the product in smaller, less expensive packets — with a seal of approval from the Ministry of Health — the product flew off the shelves and the incidence of Vitamin A deficiency in school children decreased

- **Reach groups that would not otherwise be accessible.** Partnerships can help to expand markets for products and services to social groups previously excluded from access to them

EXAMPLE Accion creates microcredit programs throughout the Americas Its corporate partner is Citibank. Citibank is better able to work in several Latin American countries because Accion takes the risk of building microcredit programs that work with people who need small loans now but who will eventually become Citibank customers for checking accounts or business expansion loans Accion has more leeway to innovate and build trust among the poor populations than Citibank does

- **Provide new management training for corporate personnel** Managers' participation in corporate partnership activities not only deepens their commitment to the community but serves to educate company personnel about the local market

EXAMPLE Winrock International is working with Monsanto to introduce West African farmers to the herbicide Roundup, which dramatically reduces the amount of labor required to prepare fields for planting Since most agricultural work is done by women, the time saved in the field allows women to spend more time with their families or engage in other income-generating activities Winrock educates farmers on the use of Roundup on demonstration farms, and has worked with Monsanto to develop a dry product in small packets appropriate for backpack sprayers As a result of this partnership, sales of the product have increased dramatically, and the time savings for women have been considerable

- **Enhance public understanding of business-centered approaches** Corporate involvement with NGOs leaders can be a direct and effective way of broadening societal understanding of entrepreneurship and sound business management practices

- **Establish a forum for public discourse.** Partnerships create a friendly community milieu within which the benefits and costs of industrial development can be rationally discussed

EXAMPLE A number of socially responsible business associations have developed which have gained a growing number of NGO partners Organizations such as Business for Social Responsibility, The Conference Board, Philippines Businesses for Social Progress, the National Business Initiative in South Africa, the Thai Business Initiative for Social Development, the Polish Business Leaders Forum, and Business in the Community in the U K are all working to broaden the discourse between businesses and nonprofits and to make the public aware of businesses' interest in social development

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Step Three:
BECOME MORE BUSINESSLIKE

Becoming a more attractive partner for business

Experience has shown that NGOs make more attractive partners for business when they run their organizations in a business-like way An important reason for seeking out business partners is that they offer an alternative source of funding as money from traditional donors, particularly governments, decreases There are three ways to reduce your dependence on grants finding business partners, following a nonprofit business model of increased cost recovery or cost efficiency in programs, and social entrepreneurship This step is concerned with the nonprofit business model and social entrepreneurship

Strategies for reducing grant dependence[1]

Historically, nonprofits were charitable institutions that depended on donated resources, they were unfamiliar with how to create wealth The Sustainable Development Services Project has learned that one cannot "service" people out of poverty, because doing so depends on training the poor in a process of wealth creation In the same way, one cannot service NGOs 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

The 21st century model for nonprofits will emphasize strategies that reduce grant dependence and use business models to generate wealth for their programs by viewing their organization as a business and through social entrepreneurship Grants will always be an important part of most NGOs' income, but they can move toward a greater variety in their sources of revenue

Nonprofits have learned very well how to tap into donor funds by requesting grants, but they have not done well at marketing products or services that generate revenue or at designing programs based on commercial models

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[1] The material in this section is adapted from Dr Cheryl Lassen's presentation at a CorCom seminar and was developed for the Sustainable Development Services Project, a USAID-funded program that helps NGOs develop business models, cost-recovery designs, and business planning and skills

The nonprofit business model

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

Nonprofit Business Model

PRICE x VOLUME = COST

The nonprofit business model can be expressed as PxV=C Price x Volume = Cost Given that they are intended to benefit the poor, nonprofit social enterprises cannot greatly manipulate the P (price) variable However, they must 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 significantly expanding V (volume) This simple model for sustainability is universal and cuts across all program sectors The table on the following page gives suggestions on how to lower prices and increase volume in order to reduce overall costs

Especially at the beginning of a program, it is not practical for a nonprofit to aim to pay 100 percent of its costs from earnings and become fully self-sustainable Its goal should be to improve its financial autonomy, which can be accomplished by building program earnings to the point where they cover 40 percent or more of the budget SDS has learned that the 40 percent indicator of earned revenue is a quick, generalized way to judge the sustainability potential of a NGO program

A few sectors of nonprofit international programming have well defined and tested models for social enterprise Examples are microfinance intermediaries, reproductive health clinics and basic housing programs Unfortunately, the majority of NGO 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

Some will conduct social enterprise with the poor Others will provide technical services or program goods and services to other nonprofits, private enterprise or the government Still others will partner with private enterprise such as in "ecotourism" arrangements or mechanisms that can market local goods internationally

PRICE x VOLUME = COST

PRICE

Focus on a reduced number of services or goods needed by the poor and for which they will pay Select services and/or assets that can operate more efficiently and recover costs

Standardize services and goods Eliminate frills and customization as much as possible

Become very efficient and cost-conscious Reduce waste and the use of expensive inputs

Do not charge what others are charging Know your actual costs and reduce them by increasing volume Buy in bulk, negotiate discounts and keep prices low for the poor

Trim unfunded cost centers and services that donors will not pay for nor that cannot recover costs

VOLUME

Consult clients about what services they need and are willing to pay for

Advertise the NGO services and goods, make people and institutions aware of the benefits, payment scale, and how to access the services

Increase volume by operating in populous areas, having promotions, giving introductory discounts, providing transportation, and offering mobile service delivery

Plan and track increases in services, especially fee-paying services Have a business plan Ensure that growth is realistic for targets and recovering costs

Track client satisfaction and try to lower costs (financial and other), increase clients' access to services and raise client satisfaction

Find ways to use your assets more productively by adding complementary services

COST

Understand these costs

- unit cost per service
- costs by department
- costs by region
- direct vs indirect
- costs of management

Identify ways to rationalize and control costs while losing little or no value

Establish and adhere to standards for the productivity of personnel, equipment and facilities

Create incentives for performance Pay salaries that tie compensation to output or performance

Keep track of sales, costs, profit and loss, percentage of costs recovered and other business indicators

Share information with staff about costs, productivity, efficiency and how well they are meeting the organization's goals

Defining a social enterprise

For a nonprofit that wants to increase program earnings and develop a social enterprise, the first questions to ask are, "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) that must be provided no matter what grants a NGO has or when they begin or end? What does this minimum core of operations cost?" The social enterprise to be developed should have 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 idea consists of saleable goods and services plus a customer base that will buy them The NGO 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 involves **cost saving** as much as it does increased earning Improved cost management and productivity do not require financing

- A **highly focused program model** is crucial for a social enterprise to function on a scale and level of 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 the potential to recover costs, and the scale of operations required to do so NGOs must also understand the cost structure of 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 In addition, they must develop financial management systems and staff who can keep score in profit/loss terms to provide information that drives decisions to improve cost recovery, productivity and profitability

The final lesson is that nonprofit earning must be made in a way that allows a NGO 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 missions in a more sustainable way Following are four examples of NGOs that have been able to recover costs, free themselves from dependence on grants, and fulfill their social missions The exciting thing that can be learned from these examples is that building social enterprise and mechanisms for program earnings does not mean that the poor are served less In fact, the opposite is true social enterprise makes it possible to expand the scope and variety of benefits to the poor

Four cases of social enterprise

The National Rural Electric Cooperatives of America (NRECA)

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 U S electric cooperatives NRECA is organizing a social enterprise to systematically collect donated equipment and set up a system to refurbish, warehouse and ship this equipment overseas It will either monetize the equipment for a flat rate to help pay operating costs of field or headquarters offices, or 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

Associación San Luis Obrero

The Associacion San Luis Obrero is a Honduran nonprofit that operates in Choluteca Province, on the border of Honduras, Nicaragua and El Salvador Its mission is to provide services to the poor It also works in the areas of microenterprise credit, health, vocational training, low-cost housing and local industry development It has set up each of these components as a social enterprise that makes earnings to sustain the program. The industry development program is a factory that makes and sells industrial gloves from local leather The vocational training program accepts contracts for construction, furniture and other products to support itself The health component includes a local clinic, which "sells" medical consultancies and hospital stays The rates of $3 per doctor's visit and $11 per day for a hospital bed are 50 percent lower than those of other private clinics, which cater to higher-income clients The clinic also buys large lots of generic drugs, repackages them, and sells them to the poor at prices up to 70 percent lower than prices at commercial pharmacies The clinic generates a surplus through laboratory, x-ray, pharmacy and physical therapy services that pay for mobile health teams to visit remote rural areas and low-income urban neighborhoods twice a month for health screenings, limited curative services (for colds, minor infections, etc), and preventive health education on topics such as family planning

Mexican Confederation of Private Family Planning Agencies (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 During 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 USAID funding and earn the majority of its income The volume of its fee-based services rose enormously as FEMAP learned to provide many different services (consultancy, lab work, x-rays, other medical tests, screenings and 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 Without deviating from its mission to serve the poor, FEMAP decreased its USAID dependence from 42 percent of its budget in 1992 to 14 percent in 1998

International Eye Foundation (IEF)

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

IEF is now forming social enterprises to increase the quality and reduce the cost of eye surgery This new approach adds social and economic value on several levels The consumer receives a better cataract operation at a more affordable price, doctors and eye clinics can perform a greater volume of cataract surgery, and can use their earnings to update techniques and equipment IEF Guatemala pays its operating costs and offers 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 enterprise could serve several Central American countries IEF headquarters in the U S can also earn income for its operations by managing the bulk purchases and distributing medical supplies and equipment

Start social enterprises and build business literacy

Because of the need to expand and diversify income, NGOs are turning increasingly to the social enterprise model, following the example of other nonprofits that develop mechanisms for program earning Done well, social enterprise can greatly expand the scale and quality of benefits to the poor However, increasing NGOs' financial autonomy is a process that takes several years to accomplish Nonprofits can start with very small social enterprises that are affordable for their capital and assets NGOs can create wealth for their programs in ways that do not require capital by managing costs, more tightly channeling program focus and improving productivity As new projects are designed and new grants started, nonprofits must define what can be sustained financially when the soft money ends and then devise a multi-year strategy that builds the skills, assets and organizational capacity to accomplish it

Step One: CHANGE YOUR WAY OF THINKING

Step Two: WHAT DO YOU HAVE TO SELL?

Step Three: BECOME MORE BUSINESSLIKE

Step Four CHOOSING A PARTNER

Step Five· ETHICAL ISSUES

Step Six: MAKING CONTACT

Step Seven: NEGOTIATING THE DEAL

Step Eight· IMPLEMENTATION

Step Nine THE ROLE OF GOVERNMENT

Step Ten: CELEBRATE SUCCESS

Step Four:
CHOOSING A PARTNER

Know the playing field

Many partnerships begin when someone from a business approaches an NGO for assistance, and partnerships will continue to be made that way However, NGOs can be more strategic and proactive by approaching potential businesses and initiating a discussion about possible joint ventures How do you know whom to approach? It was recommended in Step One that you start to mingle in places where business people gather Business people know not only their own companies but those of their competitors, so they can be a rich source of information about potential partner companies

First, obtain or make a list of businesses working in your country or geographic area Make contacts with business associations, the Chamber of Commerce and the Ministry of Commerce Look in the telephone book You may also ask these groups about companies that have made inquiries about working in the country but do not yet have a presence there

From that list, identify the businesses with common interests, such as products that relate to your objectives or a mutual interest in the economic development of a town or region If you are a health organization, identify the pharmaceutical companies, medical suppliers and for-profit service institutions If you are in credit or economic development, look for banks and cooperatives If you are in education, look to textbook suppliers and construction firms that build schools

Next, highlight businesses that have public relations problems or have been mentioned negatively in the press Are their problems something you can help with? For example, if they are accused of exploiting workers, can you help them establish health care, literacy or housing programs for their workers? If they are accused of not hiring local workers, can you set up a training program for youth to give them the skills they need to work for the company?

Make a note of businesses with which you already have a philanthropic relationship If you are already receiving grants from a charitable foundation connected with a company, this is an excellent start for a more substantive partnership Many of the cases presented by CorCom network members started out as philanthropic relationships but by involving the business in the project, often through company volunteers, the relationship was able to change and grow

Researching individual businesses

Many people have asked how to find out if a business is "socially responsible " You can find out a lot about companies by looking at their site on the worldwide web There are also investment funds that invest only in socially or environmentally friendly companies These companies have employees whose job it is to ferret out the details of company holdings In the complex world of international business, it is often difficult to know all the companies that are under the same corporate umbrella Company reputations may vary from country to country and from time to time

Certainly, before you approach a business, you should know as much about them as possible At the minimum, this means you need an organizational chart of the company, its annual report for the past year or two, and its sales or promotional material Most of this information can be obtained from a quick visit to corporate offices or with a phone call But it is also helpful to know the unofficial information All countries require foreign companies to obtain licenses to do business, and the information they submit is usually in the public records Check with your local Chamber of Commerce, Better Business Bureau, and Ministry of Trade or Commerce and see what types of records they have that you can use

A LESSON LEARNED

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, and 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

Develop a strategic plan for engaging business

Now that you have a list of companies that could potentially be partners, you need a strategic plan for contacting them This means developing some priorities and looking at some practical matters Your strategic plan might look something like the one on the following page

Highlight companies whose names fall in three or more of the columns Next, look at some practical issues such as where the company headquarters is located and whether you have contacts who can get you in to see the CEO or local manager Be sure to review Step Five on ethical issues to be aware of areas in which companies might present problems Complete the matrix with other factors that are important to your NGO

When you have the matrix filled out, you should quickly be able to see the priority companies you should contact, those that might need more research and groundwork, and those with whom a partnership is unlikely or inappropriate

Completion of the strategic plan may take time and energy for people to find the information they need The development of the final plan must be done in a participatory way with all stakeholders, including field staff, the home office, and all partners in the process

Strategic Planning Matrix for Identifying Potential Business Partners

	Doing business in this country or area	Businesses share common interest with NGO	Businesses with negative publicity or image	Businesses with current philanthropic relationship
Headquarters nearby				
Have contacts				
No ethical problems				
Other factors				
Other factors				

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Step Five: ETHICAL ISSUES

The complexity of the issue

As more nonprofits seek out partnerships with businesses, ethical issues become very important both for the nonprofit that is seeking to protect its good name and for business that is interested in social responsibility There are no absolute answers as to which partnerships are acceptable and which are not Each NGO and each individual must decide what is appropriate They must also grapple with the problem of appearances Sometimes developing a partnership may seem to be a great program strategy, but if the alliance concerns board members, other financial supporters, NGO partners and other stakeholders, then it is best to postpone the partnership until any problems can be resolved

There are many ethical issues that must be considered before entering into a partnership from the NGO perspective, some of which are illustrated in the following examples

- A nonprofit carries out health programs overseas It is approached by a major alcohol company about putting HIV/AIDS educational messages in its advertising Would you want your organization's name linked with an alcohol company?

- A nonprofit that focuses on agricultural development decides to work with a major agrochemical company to distribute a herbicide in West Africa The product saves a great deal of time and labor for women The product is environmentally friendly and, when used properly, is not a hazard to health However, the company also makes many other products that are not as benign Should you promote the product?

- Monsanto, Shell, Cargill and other companies are establishing their own NGOs or starting to work in communities directly Can businesses sponsor community work and be honestly focused on the needs of the community or will they always promote the interests of the business?

- Shell/Nigeria has offered you a job directing a community development project They will pay a lot more than you were paid by the nonprofit Would you take the job, knowing that you would always represent the company over the interests of the community?

- A nonprofit links small producers of crafts overseas with distributors in the U S Can the nonprofit take a percentage of the profits from the distributor and still remain an honest broker to the poor?

- A nonprofit is part of a partnership to promote foods fortified with Vitamin A As part of the partnership, the nonprofit gets a small percentage of the sales of the product If you take the money, will it jeopardize your 501(c)(3) status?

- Johnson & Johnson has asked your nonprofit to partner with them on a childhood immunization campaign and the marketing of products that are beneficial to new mothers and babies Johnson & Johnson is part of a family of 181 companies, and you have no idea what the other companies make Should you partner with them?

These are real ethical dilemmas faced by nonprofit members of the Corporate Community Investment Network Ethical problems are not always black and white, in fact, most do fall within grey areas

Who will you work with? Who won't you work with?

The most fundamental ethical issue is to decide what types of companies you will and will not work with This is a difficult decision to make At the beginning of the CorCom network meetings, most members felt they could only work with socially responsible companies and specifically excluded tobacco and alcohol companies and those that manufacture weapons such as landmines

However, as David Logan pointed out by example at the first seminar, if you are conducting HIV/AIDS education in Africa, alcohol and tobacco companies are precisely the partners you want to work with, because their advertising is targeted to the very population of young people who are most at risk of spreading HIV At the same seminar, David Clark argued that it does not matter why a company does good, as long as it does good After several months of discussion and case studies, most of the network members came to feel that they would at least discuss partnerships with almost any company They agreed that if they could obtain money and other resources to tackle an important social problem and further their mission, then it was at least worth looking into and should not be rejected without discussion

Socially responsible companies: pros and cons

Most NGOs would prefer to work with companies that have a reputation for being socially and environmentally responsible How you define those terms may vary according to conditions in your country and your own values as both an individual and an NGO There are lists of companies that have been judged socially responsible according to certain "screens" that enable investors to see whether the company is environmentally friendly, has a community investment program, provides equitable working conditions for its employees, and other such factors A growing number of companies conduct social audits, a kind of evaluation, to see if their partners and suppliers meet their standards Business associations such as Business for Social Responsibility and the Conference Board encourage their members to conduct audits and provide the tools for conducting them

There are two major issues that must be taken into account when considering partnership with a company

First, it is very difficult to determine whether companies are socially responsible Most big companies are part of larger multinational families of companies, and it is very difficult to research all the companies in the entire corporate structure It is also almost impossible to find one that does not have some link to arms manufacturers or environmentally unfriendly or socially irresponsible contractors, subcontractors, suppliers or partners Chemical companies, such as Monsanto, that make labor-saving products for women farmers also make products that are not as environmentally friendly or safe You might ask potential partners if they have conducted a social or environmental audit and if so, request a copy of the report Meanwhile, companies that are ideologically pure in all their work are few and far between, and they do not need much help from NGOs

It is the companies that are* not *socially responsible that need the help of NGOs the most

Second, and this is the most difficult, it is the companies that are *not* socially responsible that need the help of NGOs the most Companies that are socially responsible are already investing in the community, thinking about the environmental consequences of their work and treating their workers well It is the companies that are under attack by environmental, human rights and other advocacy groups that need help from NGOs Sometimes doing good means making things less bad

Seminar speakers Laurie Regelbrugge and Joan Dubinsky[1] each presented frameworks for ethical decision making Ethical issues will arise often during the course of your work with business partners, so it is a good idea to start thinking about them from the beginning

If an NGO can provide reproductive health care to factory workers or help distribute a product that people need to improve their quality of life, it may be able to alleviate some suffering Most important, these partnerships can grow so that even through a small pilot project, an NGO can have a major influence on a company and its practices as the project demonstrates that social responsibility is good for business

Getting involved with a business that has a bad reputation is risky and requires careful thought, but in the end, the results can be rewarding It's something to think about

[1] These frameworks are copyrighted to Ms Regelbrugge and Ms Dubinsky If you wish to use them for other than personal use, you should contact the authors for permission

Steps for Ethical Decision Making

by Joan Dubinsky, The Rosentreter Group

There are five steps in ethical decision making verify, identify, clarify, evaluate and resolve

VERIFY

- Make sure you have the significant facts
- Distinguish between the facts you would like to know, those you are sure of, and those you may never know

IDENTIFY

- Who are the stakeholders?
- Evaluate their interests in your situation

CLARIFY

- Describe and analyze the issues
- What are the legal, technical and management implications?
- What ethical values are involved?
- Describe the dilemma — succinctly!

EVALUATE

- Identify several options
- Consider acting and not acting
- With whom can you discuss the situation?
- For each option, ask Is it legal? Does it reflect sound business judgment? Is it the *right* thing to do?

RESOLVE

- Select the resolution that is fair and just
- Can you explain your resolution to others?
- Have you treated similarly placed stakeholders in similar fashion?
- Would you willingly trade places with each stakeholder?
- Can you look at yourself in the mirror tomorrow?

A Framework for Ethical Considerations in NGO Partnerships with Corporations

by Laurie Regelbrugge, Hitachi Foundation

KNOW your organization's mission and identity — be clear about who you are, what you do, and why

- What is the mission of your organization, and what are your goals and objectives?
- What is the nature of your activities?
- What are your rationale and strategies?
- What are the causes of the circumstances you are addressing?

RESEARCH the company or companies with which you wish to partner, or which might be good prospects for partnerships given their strategic interests

- What companies operate in your geographic region?
- What companies address related issues in their business?
- What companies have operations that would be contradictory to your mission and approaches?

DETERMINE WHY you want a corporate partnership

DETERMINE WHY the company wants or might want a relationship with your organization

DISCUSS the nature of the relationship, the target activities, the desired outcomes, and processes for decisions, updates and resolving differences

- How and by whom will decisions about the partnership or joint project be made?
- What outcomes are we seeking that are the same, and what outcomes are we seeking that are different?
- Is there anything about the proposed relationship, activities or environment for the partnership that is illegal? Anything that strikes you as unethical?

ANTICIPATE best and worst-case scenarios for your involvement with this company

- If there were a scandal involving the company, how might this affect the partnership and/or your organization?
- Do company operations threaten or contradict your work, or could they jeopardize outcomes?
- How will the company communicate about the partnership?

ACT if there are signs of trouble in the relationship that might jeopardize your inway

Remaining an honest broker

Aid to Artisans did not take a fee for mediating an agreement between a pottery cooperative in Peru and a distributor in the U S While most members of the CorCom network believed that Aid to Artisans should have charged a finders fee, Aid to Artisans argued that they cannot remain an honest broker when they have a financial interest in the outcome of a potential deal The group further argued that by brokering deals that are lucrative to them, they may be tempted to work with people who can best generate money for them rather than the poorest people who need their help While most of the network members felt that it is possible to reach the very poor and still hold a financial interest in the deal, Aid to Artisans' position offers valid points to consider It is important to remain an honest broker to the poor and their interests while making your organization financially viable

Tax implications for partnerships[2]

When a tax-exempt organization works with a for-profit company to accomplish its purposes or raise funds, it must be done in a way that is consistent with the organization's tax-exempt status, and in recognition that such relationships often trigger an obligation by the tax-exempt entity to pay unrelated business income tax (UBIT) [3] "A UBIT Primer for Nonprofits," a memorandum which summarizes how unrelated business income arises and must be treated, is included in Appendix E [4]

The issues are complex, and it is highly recommended that you consult with your legal advisors and accountants as you develop a partnership, since how you get paid will be important to maintaining your nonprofit status

Unrelated business income

Very briefly, nonprofit organizations (designated as exempt under Section 501(c)(3) in the U S for their tax code), are permitted to generate an "insubstantial" amount of income from activities unrelated to their exempt purposes An NGO can make money from an "unrelated" business activity, but the income may be taxed at corporate rates and be reported to the Internal Revenue Service

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[2] This material is based on the presentation at the CorCom seminar by Mr Richard Campanelli Please contact him at Gammon & Grange, PC, 8282 Greensboro Drive, 7th Floor, McLean, VA 22102, (703) 761-5000, for additional information or for permission to use his material

[3] The discussion here is based on U S laws If your organization is based overseas, consult with an attorney who knows local law with regard to nonprofits

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Unrelated business income is income raised from a trade or business (the sale of goods or the performance of services) that is carried on regularly, and that is not "substantially" related to your organization's tax-exempt purposes Therefore, it is important to evaluate whether an activity is adequately related to furthering your exempt purposes and your charter It is *not* enough to demonstrate "relatedness" to show that the income produced will be used by or for the organization The income-producing activity itself must be adequately related to your exempt purposes

Some types of income are not subject to the "UBI" tax In some circumstances, "passive income" from dividends, royalties, rent and the sale of property may not be subject to UBIT Also, business conducted primarily by volunteers, convenience businesses (such as a snack bar in your office for employees), and in some cases, income derived from the use of your logo (such as so-called affinity credit cards), and rental of your mailing list, may not be subject to UBIT However, the regulations are complex, and only careful review of your factual context will determine whether UBIT applies Competent legal counsel should be consulted

Maintaining exempt status

No substantial part of the NGO's earnings can benefit an individual or for-profit company without full and adequate compensation to the NGO Therefore, a joint venture with a for-profit can jeopardize tax-exempt status unless the NGO can demonstrate that it retains and exercises adequate discretion over its resources, the activity furthers the charitable purposes of the NGO, the NGO is fully and fairly compensated for its participation in the activity, and the NGO does not unduly subject itself or its resources to risk of loss or dedicate those resources to the benefit of the for-profit or private interests

For further discussion on legal issues associated with such relationships between tax-exempt entities and NGOs, see Step 7

Vetting the idea with NGO partners and the NGO community

Once you have worked through some of these ethical and legal issues, it is very important to review your thinking with your NGO partners and others in the NGO community If your organization is moving ahead with business partnerships, you may want to select as partners other NGOs that are amenable to the new paradigm Pact learned that a potential partnership can be jeopardized if your NGO partners are not thinking in terms of the new paradigm Other U S - based organizations have felt pressure from NGO partners in other countries not to proceed with alliances that give the impression of support for unethical practices

A LESSON LEARNED

NGOs working with business partners must continually revisit and possibly revise the purpose of their partnership as new opportunities arise

Step One: CHANGE YOUR WAY OF THINKING

Step Two: WHAT DO YOU HAVE TO SELL?

Step Three: BECOME MORE BUSINESSLIKE

Step Four: CHOOSING A PARTNER

Step Five: ETHICAL ISSUES

Step Six MAKING CONTACT

Step Seven. NEGOTIATING THE DEAL

Step Eight: IMPLEMENTATION

Step Nine: THE ROLE OF GOVERNMENT

Step Ten· CELEBRATE SUCCESS

Step Six: MAKING CONTACT

Preparing for a meeting

A great deal of thought and planning goes into preparing for a meeting with a potential business partner It is assumed that you will have done a lot of homework before the meeting, including developing a strategic plan identifying businesses you want to work with and gaining support for the idea of business partnerships from your board of directors, staff at all levels and NGO partners You also must know what you have to sell, such as access to networks of poor people, training skills, community economic development strategies, or technical skills in health, tropical agriculture or education

Why would a business want to be socially responsible?

David Clark[1] gives three reasons for a business to be socially responsible

- **It builds the business through increased sales.** These sales may include cause-related marketing, affinity credit cards, or assistance with the marketing of products in developing countries where the business has little experience

- **It builds people.** A company that is socially responsible can attract and retain staff by increasing morale Commitment to a social cause increases workers' loyalty, and commitment to workers' health and well-being reduces absenteeism and health care costs and increases productivity

- **It builds the company's reputation.** Businesses like to strengthen their reputation with the public through affiliations and partnerships with worthwhile causes or well-known organizations Company reputation is essential to sales and customer loyalty

[1] David Clark is Regional Director for Business in the Community, which is located in the U K His job is to facilitate linkages between business and community groups He was a speaker at the CorCom seminar on "Getting Started"

Know which part of the business to approach

It is important for you to know what you have to sell and what you think the company needs, so that you will know whom to contact for an initial meeting If you do not already have contacts in the company, then the first meeting should be with the most senior person possible, preferably the chief executive officer or his or her local representative

Knowing what you have to sell can help you decide what departments to approach if you cannot reach the CEO If you feel you can help reduce the company's costs by improving worker health or providing trained workers, you should talk with people in the personnel or production department If you want to improve worker morale by improving conditions in a factory or providing literacy or child care services, see the human resources department If you think you can improve a company's image by collaborating on an immunization campaign or public education strategy, contact the public relations department If you want to work with the company on the marketing or distribution of a product, visit the marketing department

David Clark has employed a somewhat bold approach to this first meeting, since the main objective is to engage the "heart" of the company He says it may be worth taking along some of your clients, perhaps a couple of unemployed youth, women from the community, or local small-business people He points out that CEOs say "no" all day, and are generally pre-programmed to say "no" to whatever you propose The trick is to get the CEO engaged in discussing the problem, getting to his or her heart rather than his or her head On most occasions, however, you will ultimately engage the company on business, not charity, terms

Go to the meeting with facts and numbers showing how much money you can save the company...

Whatever your approach to first *get* the CEO's attention, everyone agrees that you will only *keep* that attention with facts about how you can help his or her business Go to the meeting with estimates of the number of people you can help the company reach, the reduction in health care costs you can help the company realize, or whatever it is you can do for the company Make the CEO see that you are proposing a business deal

David Clark recommends "the six R's" as a strategy for engaging the business research, reception, relationship, rejection prevention, results and reminder

The Six R's of Engagement
- Research
- Reception
- Relationship
- Rejection prevention
- Results
- Reminder

- **Research.** Read the company's annual report, know where it does business and whether it is performing well or poorly Read business magazines and the business section of the newspaper Go to the meeting well informed about the business, and the company will appreciate that you have taken an interest in its work

• **Reception.** While you are in the reception room, take note of the environment Collect brochures, talk with other visitors and get to know the receptionist From this information, you can learn about attitudes and culture of the business, and any changes that may be underway

• **Relationship.** Before the meeting, find out some of the CEO's interests Begin your conversation on a personal level, then move into talk about business by asking informed questions Finally, talk about the issue that interests you Let the CEO know that you have already given a lot of thought to how a partnership will help further your cause while helping his or her business Invite the CEO to visit your project and meet your clients Getting the CEO out of his or her own comfort zone to see and believe will create a powerful champion

• **Rejection Prevention.** Go to the meeting with facts and figures showing the business results of your partnership idea Show how you can reduce costs, expand markets or reduce risk Try to prevent rejection before it happens

• **Results** At this point, if your meeting has been successful, the CEO may offer you money Do not settle for a check Go for a long term commitment Be prepared to tell the CEO how the whole company can be involved and how it will benefit Review the company's organizational chart and show how you can work with production (to lower costs or improve employee performance), human resources (to train new workers or increase morale), new product development (marketing strategies or risk reduction), public relations (improved image), and so on

Do not settle for a check Go for a marriage — a long-term commitment.

• **Reminder** Write a thank-you letter that summarizes what you discussed Deliver on any promises you made to provide facts, figures or information Keep notes on what you learned so that if the partnership does not develop immediately, you can continue to keep in touch and perhaps form a partnership at a later time

David Clark defines the mechanisms by which a company can contribute to a community by "the five P's" profit, power, product, premises and people

The Five P's of What a Company can Contribute to a Community

- Profit
- Power
- Product
- Premises
- People

• **Profit** Companies can donate part of their profits to a worthy cause This is what David Logan calls the "Carnegie model," also described in Step One as the first generation model Most NGOs operate with some grants from foundations

• **Power.** Companies can wield a great deal of power in a community or country Involving the most senior people in a company can attract the attention of other business leaders and government officials, which can open the door to other resources, raise your organization's profile, and legitimize its activities

• **Product.** A company's products may be of importance to health (toothpaste, over-the-counter medications, vitamin-fortified foods, condoms) or agriculture (seeds, herbicides, animal care products) The distribution of products that contribute to a better quality of life can form an important basis for a partnership Companies may be very generous with in-kind gifts that can be used in community activities, day care centers, offices or schools There are many examples of NGOs working with companies to distribute or make use of the companies' products

• **Premises.** Companies may allow community groups to use their conference rooms, photocopying facilities, offices, and other facilities for training, quality child care, literacy classes, community meetings or adult education courses

• **People.** Companies increasingly encourage employees to become involved in social causes and may even give them paid leave to provide services to nonprofit organizations Businesses' expertise in management and administration can be invaluable to nonprofits When companies downsize, for example, some let workers serve out their last months with a nonprofit to show that the company cares and — in the worst cases — to help prevent sabotage to company systems by outgoing workers Skilled volunteers from business can help you with some of the social entrepreneurism and reduction in grant dependence discussed in Step Three In addition, getting company volunteers involved in your work often can lead to more substantive partnerships in the future

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Agree on the idea first, then work out the details

You have done all your homework, researched the business, gained support from your colleagues and partners, and have had a successful meeting with the CEO or other company representative Now you must negotiate the partnership Discussions often start around a specific activity that both partners want to undertake However, experience has shown that it is essential to agree on the *nature* of the partnership as well as the actual *activity* Over the course of planning, there are bound to be bumps in the road, and both sides must be committed to working through those problems That means the nature of the activity may change quite a bit before both sides agree on the details

A LESSON LEARNED

Partnerships require a sincere commitment on the part of all 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 and ethical standards while businesses can keep an eye on the bottom line

A LESSON LEARNED

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 normal for the two parties to have different objectives, but they must be known and respected by the other partner

Use a team approach

Practitioners emphasize the importance of process skills in those who manage the project on both sides Yet the project is also likely to have technical components that require the advice of engineers, human resource specialists and others Most members of the network recommend a team approach, guided on each side by people with excellent listening skills and a willingness to be flexible Depending on the issues to be discussed, planning sessions should include technical staff from both sides The team approach has the added result of getting buy-in from a larger number of people on both sides The more people who are involved in some way, the greater the prospects for success

A LESSON LEARNED

NGO staff need different skills than they have used in the past, and must become much more knowledgeable about business concepts and tools Partnerships are negotiated by program staff, but their team may include fund raisers and people with strong technical skills in the sector On both sides, those involved should have good human relations skills, be willing to listen, and be flexible

Find a "champion" within each partner

A partnership is most likely to move forward if there is at least one fairly senior person on each side who champions the partnership The champion should be someone who believes in it and has the power to make it happen by clearing bottlenecks and motivating others Janet Thompson of Citibank said that an important part of her role in Citibank's partnership with the National Association of Nonprofit Loan Funds is her efforts to educate and inform other Citibank staff and find ways to get them involved in the partnership

A LESSON LEARNED

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

Engage the whole business

It has been mentioned earlier that it is important to engage the whole business whenever possible To do so, you should bring to your negotiations ideas about how various departments can be involved in the project, whether as volunteers, technical advisors, trainers, a resource for developing and printing educational materials, or whatever each department can contribute Such broad-based involvement makes the project more sustainable and can lead to other projects as people work together and envision ways to solve more problems collaboratively

Agree on a project design

It is important to establish a written project design and time frame that both sides can agree on, which may take several meetings with various members of the design team NGOs are used to writing proposals, but under the new paradigm the project is usually designed jointly, with each side making a contribution and ensuring that its objectives are met The time frame is very important since most private sector firms work much more quickly than NGOs Businesses often want it done **now**, so NGOs must be prepared to make a quick start-up and move quickly into implementation

The business may need some education about how long community organization processes take When Enron approached CARE about improving its image in the Indian community where it operated a refinery, the company did not understand that CARE's integrated community development approach requires a significant investment of time to implement CARE spent its own money for two years getting the basic community organization work done, but once Enron saw the value of the process, the partnership developed and Enron paid for CARE's programs

A LESSON LEARNED

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

Include stakeholders

After there is agreement to move forward on a partnership, it is useful to identify all the stakeholders and encourage them to be involved in the discussions Stakeholders are all those people who have some stake in the outcome of the project, including community members, local leaders, government officials and people from other divisions of the NGO and business Involving stakeholders ensures that they agree with the basic ideas and that the design is acceptable to all

A LESSON LEARNED

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 — it cannot be only good for business, but must also have some social value

Pricing your services

As mentioned in Step Two, an NGO has two things to sell technical expertise and credibility, each of which has an economic value How does an NGO price its technical expertise and services to a business? First, it must know the actual costs of providing the service These costs are calculated by following the principles about knowing the various costs of doing business that are outlined in Step Three Cost factors to consider include start-up expenses for new staff or equipment if needed, personnel and supplies, plus overhead expenses Pricing the service is not unlike preparing a budget for a proposal, with one exception the cost of your name, as discussed on the following page

Some NGOs prefer to work on a grant basis They prepare a proposal stating the services they will provide and ask for a fixed amount of money to provide those services Winrock International, for example, works with Monsanto on the marketing of an herbicide in return for a fixed-price grant Others prefer to take a percentage of the profits The Jane Goodall Institute takes a share of the profits from its partnership with a software company that produces a children's educational game

Businesses are not keen on revealing how much profit they are making from the partnership None of the members of the CorCom network knows how much money their private sector partners are making, or in what way their business has improved, as a result of the partnership Clearly, the businesses are profiting in some way, otherwise, they would end the relationship It is helpful to negotiate some kind of financial transparency on both sides as part of the deal If you are seeking a percentage of the profits, a reputable accounting firm can ensure that you get your fair share without compromising the company's need for confidentiality

Remember that if the relationship furthers your nonprofit cause (reduces malnutrition, increases employment, or whatever) you will not have to pay unrelated business income taxes If it does not further your cause, you should consult tax lawyers about ways to report the income and protect your nonprofit status Refer to Step Five for more information on the tax implications of partnerships

Pricing your good name

At some level, almost all businesses want partnerships with nonprofits for the credibility the nonprofit brings to them In some cases, the business may have a poor reputation and want to improve its image through association with a well-known partner In other cases, the business may already have a good reputation and want to expand it or work with the NGO to reduce its costs or market its products One of the most difficult aspects of negotiating the price of a partnership is how much to charge for the use of your good name or, as it is known to accountants, your goodwill

When businesses are sold, a standard accounting line item is goodwill A store that is well established in a community is worth more than a similar store that just opened because the established store's history and reputation in the community has a financial value Your value as an NGO is based on your history, your reputation, how broadly you are known (businesses often want to work only with big international "household name" NGOs), and how badly the business needs your credibility Some companies would jump at the chance to be associated with a well-known nonprofit organization Others already have a good reputation and do not need the credibility of a partner For example, when an environmental NGO approached Disney Corporation to propose some joint activities, Disney was not interested, since it already has an excellent reputation

In some cases, a business may only want to use your name, not your technical services In cause-related marketing, businesses offer to make a contribution to your organization in exchange for the use of your name If you buy their product, some portion of the proceeds goes toward your cause It has been shown that cause-related marketing does increase sales It can be a good source of revenue for your organization, but it is not the same as a joint venture in which the NGO and business jointly manage a community investment activity

There is no easy answer on how to value your goodwill other than to say it is worth what the market will bear There are standard accounting formulae that are used in pricing goodwill in the sale of businesses It may be worth consulting a good accountant with experience in the sale of service businesses (rather than product sales) for advice Also, there are standard accounting ratios that may help quantify the concept Since this is a new field for NGOs, a standard has not yet been developed for how to value the credibility you bring to a partnership

A LESSON LEARNED

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

Consider investment costs

Partnerships often have investment costs on both sides Partnerships do not work like a grant in that a check arrives and you begin work The business may have to do research on new types of marketing, packaging or products Procter and Gamble, for example, spent close to a million dollars finding a shelf-stable vitamin A to put in Star Margarine Monsanto spent time and money developing a dry form of Roundup and packaging it in sizes that fit a backpack sprayer to meet West African conditions There may be start-up costs for the NGO, too, to demonstrate to the company that it can perform the services required Aid to Artisans made several trips to Peru before negotiating a contract with a supplier in the U S , and also helped with quality control and design The investment costs on the NGO side can include both travel and staff time and may include fees for consultants, demonstration sites or events, or product quality control costs

Think outside the box

One of the many advantages of the new paradigm is that we are freed from the constraints of donors' guidelines on project design Most NGOs are so accustomed to thinking in terms of the usual project design that they may fail to "think outside the box" and be creative or unusual Perhaps other NGOs, businesses or organizations should be part of the partnership Define a problem and its causes carefully, then look at a variety of ways of solving the problem before selecting one Solicit ideas from people outside the development community See if there is a way to solve two or more problems at the same time, such as training unemployed women to provide quality child care at a factory

Start small and grow

Experience has shown that partnerships work best when they start small with joint activities that are likely to succeed Working together may be a new experience for both partners, and you have much to learn and teach each other Once a few activities are proved successful and the financial interest to the company has been demonstrated, the company will almost always want to expand the project to other factories, countries or activities It is not unusual for a partnership to take a year or two to develop

A LESSON LEARNED

Partnerships are incremental They start with small agreements and activities and grow over time Substantive partnerships often result from 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 Even though partnerships are implemented in the field, they need a "champion" at corporate headquarters and within the NGO to embrace the concept

See your lawyer[1]

Not all partnerships are established by a formal written contract Letters of agreement or memoranda of understanding, or even oral agreements, may establish legal relationships and may evolve as the relationship grows Therefore, it is highly recommended that such agreements be reduced to writing, and be reviewed in advance by a competent attorney to ensure that they do not jeopardize the tax-exempt status of the NGO

Minimally, the following should be observed

- The nonprofit organization must retain and exercise discretion and control over its resources (e g , mailing list, intellectual property, any other assets involved or invested in the venture) when entering into arrangements with for-profit partners

- Avoid entering into exclusive contracts with for-profit service providers

- Fee arrangements must be fair to the NGO, and any compensation or payments to the for-profit must be demonstrably reasonable for services rendered

[1] This material is also adapted from Richard Campanelli's presentation at the CorCom seminar Contact him for additional information or for permission to use this material

- The NGO should reserve the right to terminate the contract prior to the end of the contract term

- The NGO should control the operational and organized structure of any partnership or joint venture established, sufficient for the NGO to protect its nonprofit resources The IRS will look beyond structure to actual operation to determine the adequacy of such control

- The activities of the partnership must demonstrably further charitable purposes \

- The structure of the partnership must insulate the exempt organization from undue risk and from potential conflicts between its charitable purposed and its general partnership obligations, and minimize the likelihood that the arrangement will generate undue "private benefit "

When considering an agreement or venture with a for-profit entity, the following points are also important

- Does the contract or agreement clearly state your organization's charitable/exempt purposes, and does it provide that the business partner understands and recognizes that it is essential that the relationship promote the charitable purposes of the organization?

- Does the agreement provide that it may be terminated for cause if, in the discretion of the exempt organization, the contractor is engaging in activities inconsistent with the stated exempt purposed or reputation of the organization, and further, that upon termination the contractor will immediately cease all activities related to and uses of the exempt organization's name or other proprietary rights?

- Is risk and liability exposure appropriate to the undertaking? Is the nonprofit appropriately indemnified for the activities of the contractor? Minimally, is the risk undertaken by the exempt organization appropriate to matters legitimately under its control? Ensure that the contract does not inappropriately shift risk (financial or otherwise) to the exempt entity

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Build in process evaluations

As your partnership progresses, it is important to build in process evaluations so that problems can be identified before they become insurmountable Depending on the size of the project and the level of resources, the process evaluation can be an informal part of meetings, accomplished through interviews by your own or by outside evaluation staff and/or someone from the business partner's human resources staff Or the process evaluation can be a more formal process, involving a staff retreat, facilitator and formal methodology Most partnerships seem to work well with only informal evaluations, however, it is important to establish very early on the idea of talking about the *process* as well as the *content* of the joint activity If tensions seem to be building, or if the project is not moving along on schedule, then talk your partner about a process evaluation to identify the problems and overcome them

> **A LESSON LEARNED**
>
> 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

Build the support of all stakeholders

Projects change over time, personnel may change, and stakeholders may change Always keep in mind who all the stakeholders are on both sides and in the community, and include them as much as possible in discussions, problem solving, and decision making

Problem solve, do not criticize

When problems arise — and they will — work with your partner to resolve them, without being critical of their approach Businesses are weary of being criticized by NGOs Take a respectful approach to your partners, listen to their point of view, and do not criticize their approach either to them or to others outside the partnership Treat their point of view respectfully even when they are not present Each side thinks differently, and it is from this difference that creativity and innovation can spring The NGO is not always right

Get help with conflict resolution

If a problem seems insurmountable or is delaying the implementation of the project, get outside help with mediation, conflict resolution and facilitation Sometimes just a few hours with a good facilitator or negotiator can clear a bottleneck and get things moving again Facilitation might be conducted by someone on the staff of one of the partner organizations (usually someone who is not too close to the project), a consultant, or perhaps someone from another NGO or business who has skills in problem solving Problems are best solved before they reach the point of conflict If tension seems to be building, deal with it immediately

Grow organically

It has been said before, but it is worth repeating Experience has shown that joint ventures work best when they start small and grow as working together becomes easier, new opportunities present themselves, and more complex projects can be designed Both the businesses and the NGOs are learning a new way of doing business, and it is important not to start off with very large or complex projects if you have not worked with the other partner before Once a business sees the advantage of the partnership in its bottom line, it will look for other ways to work with you

If the business wants to undertake activities that are not in your skill areas, bring in other NGOs with technical experience to work with you For example, you may need an NGO with expertise in nutrition, credit or literacy to complement the technical expertise your NGO has

Assess impact

Part of the project plan should include results monitoring This includes the results for the business, the results for your NGO, and the results for the target population Businesses are not likely to give you proprietary information about their sales, profits or similar indicators However, for your own purposes, it is important to urge them to do their own internal calculations so they can see that the partnership has improved their work Generally, if the business is not profiting in some way, it will not want to continue with the partnership

Assess the impact of the project on your organization as well Has the project put undue burdens on your staff? Did you price your services correctly? Has the partnership raised ethical issues for you? The answers to these and other questions about the effect of the partnership on your NGO can help you with project redesign and in negotiating future partnerships or activities

Finally, assess the impact of the project on the intended target population Are the workers healthier? Are women saving time in their agriculture work? Are the children in the child care program learning appropriate early childhood skills? Has the availability of the product (condoms, toothpaste, agricultural products, etc) made life better for the poor without having unintended negative consequences? The evaluation can be a formal system such as you may have developed under a grant-funded program, or it can be an informal system that includes routine meetings or focus groups with representatives of the partner organizations and the community

Remember that hard impact evaluation data are a valuable tool for the business and the NGO to use in public relations (both inside and outside the organizations) Even though you are not held accountable to a donor for impact data, it is important that you gather it and use it to improve the project and show that the new paradigm works You should also refer to Step Three and become familiar with various aspects of project costs so that you can provide the maximum service for the minimum cost These figures will be of interest both to you and your partner company

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Step Nine: THE ROLE OF GOVERNMENT

Background

As described in Step One, most governments are shrinking as the private sector takes over more and more responsibilities and more government services are privatized In the U S , health care is already private, and many prisons and schools also being privatized This shift toward privatization is occurring because the private sector can often perform services at a lower cost than the government can It is also happening by necessity, since government revenues are diminishing as each new wave of politicians promises tax relief

Nevertheless, government will always play a critical role of coordination, setting policy, and creating an appropriate legal and regulatory framework to protect its citizens while providing them with the services they need There is a great deal of rhetoric now in the development community about the advantages of tripartite partnerships in which business, government and civil society work together to achieve social goals on the premise that each sector has strengths and weaknesses that the other sectors lack When all three work together, the results can be greater than the sum of the parts

There are numerous examples of tripartite arrangements At a CorCom seminar, Steve Waddell described three projects that involved local government, local business and various NGOs He found the projects to have great promise when they were flexible and willing to work together to resolve the problems presented by the partners' differing values, language and objectives

The World Bank is currently involved in a major initiative to advance the tripartite development model, particularly with government in a coordinating role and with the private sector taking up more in infrastructure projects relating to natural resources, water and sanitation, and education

In CorCom's experience, however, government has not been a major player in any of the cases, with the exception of programs that provide fortified foods, which must involve the Ministry of Health at the highest levels In the case studies presented in Appendix B, the NGOs are established in the country where the activity is undertaken, and the partnership has been between the business and the NGO Of course, any activity must follow local guidelines, laws and protocols Local officials must be kept informed of the project and invited to join in as much as they are interested in doing so Most NGOs already maintain good working relations with local representatives of various government ministries, and it is a normal part of their work to keep these officials informed and include them in activities whenever possible As projects succeed and scale up to regional or national levels, it may be more important to assure a role for government in the planning, implementation and evaluation of projects

Try to include government in the partnership

In projects of any size, it is important to include government officials, both from relevant national ministries and from local government, in the project whenever possible While the government officials usually have few financial and human resources to offer, they can play an important role in clearing red tape, interpreting local laws and gaining support for the project throughout the community

Involving government officials also offers an opportunity to teach them about the new paradigm and to provide them with some of the tools they may need to facilitate other such partnerships Most development people feel that an important role for government officials in the future will be to facilitate partnerships, some of them complex, to solve pressing social problems For this reason, they should be included in your work if they are interested

A LESSON LEARNED

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 socially responsible licensing procedures that provide incentives for businesses to have NGO partners Governments in some countries also have an important role to play in helping to privatize state-owned businesses

Follow local laws, policies and guidelines

NGOs with technical sector expertise are well informed about local guidelines, protocols, laws and regulations pertaining to their sector All activities must adhere to the legal and regulatory framework of the country and district in which they are implemented If you are not familiar with local law and regulations, consult someone who is and include them in your planning sessions

If there are laws or policies that limit your work, this should be brought to the attention of officials Some laws can be changed if business and NGOs work with local officials to draft favorable new legislation or policies, since the laws or policies affecting your project probably have the same effect on other projects Issues such as these can be taken up by advocacy groups

Keep officials informed

If, for whatever reason, government officials do not choose to be closely involved in the project, it is nevertheless important to keep them informed of your work Most government officials are overworked, and many may lack transportation You can still keep them involved by sending them copies of meeting minutes, inviting them to ceremonies and meetings, organizing special tours for them and visiting dignitaries, and offering similar courtesies Although they may not be interested in the beginning, their interest may grow as the project grows and becomes successful

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Be sure the business gets credit for its work

Even if the business is involved in the project primarily for marketing, risk reduction or decreasing production costs, there is always an element of public relations in their work It helps them to justify the project to their Board of Directors, helps staff win points on their personnel performance appraisals, and gives the business information that they can use in promoting their company image

Document the process with photos of workplace conditions, workers' housing or child care centers Collect personal stories of people whose families' lives have been improved as a result of the project Gather overall impact data showing improved health conditions, living standards or other quality of life or quality of work indicators, and give this information to the company for their records and use

An important indicator of a successful joint venture is that each side knows and respects each other's objectives Help the business achieve its objectives and help it document those successes The NGO usually has more experience in project documentation and capturing the human interest than the business does

A LESSON LEARNED

Success breeds success Under the old donor-grantee model, NGOs were forced to carry out the donor's objectives 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 pool of resources will become 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

Celebrate success

Celebrate success by holding ceremonies, press conferences, and high-visibility events that will make the work known to the community and the media Invite journalists to write stories about the project The work of getting the project off the ground requires a lot of energy and commitment, and it is important to reward those involved with public recognition and appreciation

Appendix A:

SEMINAR SPEAKERS

Appendix A:
SEMINAR SPEAKERS

Following are short biographies of the speakers at the CorCom seminars and the author of this book These individuals have written extensively on issues connected with partnerships, their publications are included in Appendix C Their contact information is listed in Appendix D

Shirley Buzzard founded the Corporate Community Investment Service in 1996 and has been its director since that time She is also the executive director of Heartlands International, Inc , a nonprofit with the mission of bringing businesses and nonprofits together She worked as a professional consultant in development for about 20 years, during which time she specialized in programs carried out by NGOs She has professional experience in more than 50 countries worldwide She is trained as an anthropologist (Ph D) and community development specialist (M.Sc) She had a prior career as a university lecturer in physical anthropology (M A) She lives in the Washington, D C area

Richard Campanelli is a shareholder in the law firm of Gammon and Grange, P C in McLean, Virginia His law practice concentrates on all aspects of tax-exempt organizations, including establishing and maintaining exempt status, board responsibility and liability, employment issues, charitable solicitation compliance, unrelated business income activities, and the establishment of for-profit subsidiaries He lectures frequently on matters of interest to tax-exempt organizations, including risk management and the practice of preventive law through legal audits He developed a legal audit questionnaire that enables nonprofits to analyze their legal status to prevent problems He teaches at George Mason University See Appendix E for a copy of his Nonprofit Alert newsletter

Before joining Gammon and Grange in 1989, Mr Campanelli was Senior Special Assistant to the Attorney General at the U S Department of Justice in the Tax and Civil Rights Division Prior to that he was legal counsel to the South Africa Working Group at the State Department He also has served as director of a nonprofit organization addressing juvenile delinquency He holds a Juris Doctor degree from the University of Virginia

David Clark is regional director for Northwest England for Business in the Community, a nonprofit membership organization made up of the 400 largest businesses in the U K Business in the Community assists in the social and economic regeneration of communities by increasing the quality and extent of corporate investments of time, cash, products, skills and other resources His role is to broker these partnerships and advise companies on ways they can make a difference by linking with community groups or local government He holds an M A from Oxford University and worked for 20 years in the retail clothing business He lives in Cheshire, England

Joan Elise Dubinsky is president of the Rosentreter Group based in Kensington, Maryland She is an attorney and management consultant with more than 19 years of professional experience in the fields of business ethics, corporate compliance and human resources issues She has worked with many corporations to design, develop and implement effective ethics and compliance programs that fit her clients' corporate culture and climate She is frequently asked to speak at meetings of the Conference Board and professional organizations

She served as senior legal counsel for the MITRE corporation, where she specialized in all aspects of employment, labor and individual rights law She also served as corporate secretary, associate general counsel and ethics officer for the American Red Cross In 1986 she was the first Ethics Officer ever appointed by a major nonprofit organization She was an honors student at the Residential College at the University of Michigan, concentrating on religious philosophy before attending the University of Texas, where she earned a Doctorate of Jurisprudence She is a member of the Center for Business Ethics and a member of the faculty of the Ethics Officer Association, where she works with executive education programs and teaches a course in Managing Ethics in Organizations She is also senior fellow with the Ethics Resource Center

Cheryl Lassen has worked in international development for more than 20 years, particularly in the areas of small business, microenterprise, microcredit, and now, in social enterprise She is currently the president of Lassen Associates, a small group of dedicated professionals who are looking for innovative solutions to alleviate poverty 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 nonprofits and worked 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 nonprofits committed to microenterprise and microcredit programs She was one of the principals in the formation of the Small-Enterprise Evaluation (SEEP) network She has worked in countries worldwide but with specific emphasis on Africa She holds a Ph D in Agricultural Economics and Rural Sociology She lives in the Washington, D C area

David Logan is founding director of Corporate Citizenship Company, based in London He provides consulting on all aspects of corporate citizenship to international companies He also provides research and services such as issue analysis, management education, benchmarking studies, program development, implementation and evaluation He has advised many major retail firms on corporate citizenship and helped others internationalize their corporate citizenship programs He is noted for his pioneering work in developing systems that monitor and measure progress in addressing corporate responsibility issues across company stakeholders worldwide He is a graduate of London University and holds academic appointments in the schools of business at the University of Manchester and City University Graduate School in New York City He lives in London

Laurie Regelbrugge is Vice President of Hitachi Foundation, a U S philanthropic organization established in 1985 in Washington, D C by Hitachi, Ltd of Tokyo She manages a grantmaking program and oversees partnership programs with U S -based Hitachi companies, and has international experience in Jordan and Indonesia She directed specialized education programs for the International Law Institute, has assisted in evaluating several education programs, and has taught at the secondary school level She has written a book with David Logan and Delwin Roy and has written other articles She has degrees from Virginia Polytechnic Institute and State University She lives in the Washington, D C area

Steve Waddell works on intersectoral collaboration for the Institute for Development Research at Boston College Raised in Vancouver, he worked first as a journalist He then held various leadership positions in the finance industry in Canada, where he started a social investment fund (now Canada's largest), and supported various 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, Department of Sociology, and various employers That 11-month program works with middle- and upper-level staff already advanced in their careers who are undertaking major change projects within their organizations He is completing a major study of intersectoral partnerships in Madagascar, India and South Africa that formed the basis for his presentation at the CorCom seminar He earned a Ph D in Sociology and an MBA. He has studied in France, Switzerland, Taiwan and China He lives in Boston

Appendix B:

CASE STUDIES

Appendix B: CASE STUDIES

EXAMPLES OF WIN-WIN PARTNERSHIPS

Winrock and Monsanto

Monsanto produces an environmentally friendly herbicide called Roundup This product allows for conservation tillage, which keeps organic material in the soil to prevent wind and water erosion without plowing Previously, fields were plowed with a mould board plow that turned the surface vegetation under Now, seeds can be planted without the extra labor of plowing, since the herbicide is put into the soil with the seeds

Monsanto and Winrock already had a relationship, since some of Winrock's work is funded by the Monsanto Fund Winrock approached Monsanto about a more substantive partnership in West Africa, where Winrock would help market the important labor-saving herbicide Initially, Monsanto was reluctant because the Winrock's proposed project would require delivering the herbicide to small farmers in small packages, a reversal of their trend toward larger, bulk deliveries of liquid Roundup in the U S However, after Winrock engaged Monsanto staff in an extensive series of problem solving sessions, Monsanto made a substantial investment in the development of small packets of dry Roundup that can be dropped into a backpack sprayer that is then filled with water This new packaging made it appropriate for the technology used by African small farmers, and the packets are much easier to distribute than the liquid

Because it dramatically reduces the amount of labor needed to prepare a field for production, Roundup is an important new technology and a major labor-saving device in West Africa, where women do much of the work With Winrock acting as an extension agent, showing the results on demonstration farms, the partnership was able to create a great demand for the new product Monsanto has asked Winrock to help them with laws and regulations that assure that the product is used properly

As a result of the use of Roundup there has been a great savings in labor, freeing women to undertake other income-producing activities Monsanto plans to open a micro-credit program that will enable women to obtain loans to start small businesses in the extra time that they now have available Farm production levels are up, which has shortened the hunger season between crops, and with higher levels of production, farmers are able to save more of their crop for seeds for the next planting cycle

Before this partnership, Monsanto was used to dealing with large-scale farms and was moving toward even more large-scale delivery systems To go back to small delivery systems was initially difficult for the company, since it seemed counter to their trend In the U S , Monsanto markets to a few decision makers who have large plots of land, but they had no experience in marketing to small farmers in Africa, a population with which Winrock had excellent contacts

Winrock brought to the partnership its on-farm productivity network and its excellent technical skills in traditional small-farm technology Winrock also brought a USAID-funded microcredit program, the ability to organize and manage the project, a strong technical knowledge of seeds, and — very importantly — credibility Winrock was viewed as an extension service that could demonstrate the product so that farmers could see for themselves the advantages of Roundup

Monsanto, for its part, brought financial resources to the project The company gave Winrock a grant that covered the nonprofit's costs to implement the project Monsanto also provided the product and the distribution system Plans are now underway to expand the project to Indonesia The initial grant was only the beginning of what will be a long-term partnership between Monsanto and Winrock, the beginning of a stream of funding

Winrock held many discussions about the ethical issues involved in promoting a product such as Roundup, but in the end decided it was immoral to withhold a technology that has so many positive features Winrock staff, who have strong technical skills and experience in agriculture, satisfied themselves that Roundup is environmentally friendly

Winrock recognizes that world must triple its food production in the next few years as the world population increases and as the world economy simultaneously improves, giving people additional resources to buy more and higher quality food Winrock believes it is essential for the NGO to envision itself on the business side to be able to identify real or potential problems They attribute some of the project's success to the use of teams on both sides, involving people with technical and process skills It was also important to have a champion on each side to help work through problems

Aid to Artisans and Mesa International

The partnership between Aid to Artisans (ATA) and Mesa International, a distributor of handmade ceramics and pottery in the U S , took almost two years to develop after ATA first met with Mesa International at the New York International Gift Fair, an annual display of merchandise Mesa International and ATA met several times before the company agreed to explore a relationship with an ATA partner, Ceramica Peru Mesa International insisted on an exclusive contract with Ceramica Peru so that competitors in the U S would not have the same pottery As discussions progressed, Mesa International agreed to send a designer to Peru to advise on quality and design issues This led to the development of an agreement to purchase approximately $1 million a year from the Peruvian ceramics cooperative Mesa International then worked with Ceramica Peru to design and package products that they would market in the U S ATA helped negotiate the deal but did not take a fee for the service As a result of the deal, the number of employees at Ceramica Peru increased by 60-80 percent Still, the cooperative manager needed credit to expand the production facilities and had some difficulty finding a loan until he was able to obtain one from the Small Credit Assistance Fund

The deal with Ceramica Peru led to a much broader relationship between Mesa International and ATA Mesa International has now agreed to purchase one shipping container of pottery from each country where ATA works, and is making contributions to ATA's operating costs The key to making the deal between Mesa International and ATA was Mesa International's agreement to send someone to work with Ceramica Peru in-country This commitment on the part of Mesa International started the process that led to the contract It took two years before Mesa International had products in their warehouse The deal took time and financial commitment on both sides to seeing the process through

ATA believes that it cannot remain an "honest broker" if it has a financial interest in the deal being made, and that its first responsibility is to objectivity For this reason, ATA does not take a "cut" from contracts At the same time, ATA is striving to diversify its income to include more donors and trade partners Many entrepreneurs in developing countries have been taken advantage of by brokers and middlemen who exploit producers ATA believes it is important to be objective in mediating contracts and to find other ways to diversity its income

The Jane Goodall Institute, Conoco, RMC Software

The mission of the Jane Goodall Institute (JGI) is to empower individuals to foster relationships between people, the environment and animals that sustain the natural resource base JGI's strategic objectives include the conservation of primate habitats, environmental education, primate research, and advocacy for animal welfare, particularly to protect chimpanzees used in research

JGI's strategic plan has two parts achieving the program objectives and reaching financial self-sufficiency through an expanded endowment, income from Dr Goodall's lectures and tours, direct mail, private donations and private sector alliances

Through private sector alliances, JGI looks for a win-win situation that profits the private sector partner and also profits JGI while helping it achieve one or more of its strategic objectives Such projects must promote the image of social consciousness JGI has several private sector partnerships that generate 15 percent of the nonprofit's income Two of its corporate partners are Conoco and RMC Software

Conoco provided the land to build a 6300-acre game sanctuary near Brazzaville in the Congo as a home for chimpanzees that were rescued from poachers, orphaned, formerly living in zoos, or otherwise in need of a safe home Conoco arranged for transportation of the chimps to the sanctuary, and in return, Conoco receives endorsements from Jane Goodall when she delivers lectures Although this endorsement is not required in the partnership contract, Dr Goodall offers it willingly because she believes Conoco has made valuable contributions to her work Conoco gave JGI a $700,000 grant to manage the sanctuary, where JGI staff conducts research that advances the nonprofit's objectives The partnership was initiated three years ago by JGI, which initially approached Conoco for a donation that eventually led to a more substantive partnership The partnership with Conoco has received widespread support within JGI, but that many of the animal rights groups have criticized the alliance

RMC Software produces a children's CD-ROM about the environment featuring Jubilee, a doll that has adventures in various econiches Each adventure includes an environmental message RMC Software produces the CD-ROM, markets it, receives most of the revenue, and strengthens its public image through its association with JGI In turn, JGI, which assisted with the development of the software and helps market it, receives a percentage of the revenue, and simultaneously furthers its environmental education objectives RMC took the initiative on this partnership after a company staff member attended one of Jane Goodall's lectures and later approached JGI about a partnership

JGI also sells other merchandise connected with Jane Goodall and chimpanzees Some of the merchandise orders are filled by volunteers from JGI storerooms and others are filled directly by the manufacturer

The time it takes to bring a partnership to fruition varies considerably depending on the deal Some have taken at least nine to 10 months while others, like the calendar, take less than one month In past years, JGI's primary sources of income were lectures by Jane Goodall and direct mail JGI now has a much more diversified funding base

Pact and Nike

Pact carries out a number of programs with NGO partners in Indonesia, addressing issues of democracy and governance, street children, and HIV/AIDS education Pact presented this case of its aborted "partnership" with Nike because the nonprofit believes that it offers important lessons for both its own organization and other NGOs to apply to future negotiations

Nike makes sneakers in many factories throughout Asia, including 14 factories in Indonesia, each of which employs more than 1000 people Nike is regularly attacked in the press for violation of human rights, local labor laws and international labor standards Through personal contacts, Nike and Pact discussed two potential partnerships one to sponsor street children in a soccer league and the other to provide HIV/AIDS education to factory workers The soccer league project would have cost Nike about $15,000, while the HIV/AIDS program would have cost several hundred thousand

Completely independent of Pact's discussions with Nike in Indonesia, a Vietnamese-American Pact employee who wanted to stop unfair labor practices in Vietnam made an evaluation trip to Vietnam It was rumored that Nike had paid for her trip, and while that was not true, it affected Pact's relationship with its NGO partners in Indonesia, particularly those organizations that focus on human rights

In the end, Pact did not pursue either of the proposed activities with Nike, in part because of criticism from NGO partners, some of which are members of the International Shoe Manufacturing Monitoring Network, and because Nike was unwilling to negotiate beyond sponsorship of the soccer league

Pact now sees that negotiating partnerships with businesses is far more complex than originally thought It involves not only the interests of the corporation but also those of the local NGO partners In some cases their interests mesh, and in others they do not Finally, as advocates for the NGO sector partners, Pact in Indonesia learned that the NGOs' interests must remain paramount

CARE and Enron

Enron is one of the largest energy corporations in the world, with 6,000 employees and $9 2 billion in annual revenues Based in Houston, Enron prides itself on being a visionary company, and has had a philanthropic relationship with CARE since 1983

Enron wanted to build a natural gas power plant in the state of Maharashtra, India but the company had a very poor reputation in the area, and there was a lot of resistance to the idea of a foreign oil company's working in the state Enron confronted political problems in obtaining the rights to construct the $2 5 billion natural gas-fueled plant, and shortly after it was finally approved, a new government came into power and nullified the deal The government argued that the project costs were padded and that the rates Enron planned to charge were too high During these negotiations, Enron was the target of considerable negative publicity from reports that the project would harm the environment

Meanwhile, CARE was closing down its community development programs in the state of Maharashtra due to a cut in USAID funds and a policy decision to move operations to poorer states Beginning in 1995, CARE and Enron senior U S staff had begun discussions on the idea of a partnership Discussions between Enron and CARE staff in India had not been systematic, and had resulted in many misunderstandings and misgivings on both sides It was clear that Enron wanted to work only in communities affected by the construction of its plant CARE, on the other hand, wanted to work in the poorest communities and thought that Enron should make a contribution to CARE's work in other areas as well as those surrounding the plant

CARE offered Enron three options a credit program in three states (not to include Maharashtra), partial funding for programs in three states including work through an NGO partner in Maharashtra, or half the money for an economic development program through a partner NGO in Maharashtra and half for CARE programs in other states CARE also offered Enron several funding level options After much discussion, Enron agreed in principle to work with CARE in the communities immediately affected by the plant and also support CARE's work in other states Enron agreed to give CARE $500,000, of which 80 percent would go to an NGO partner to implement a savings and credit program in Maharashtra, and the other 20 percent would go for CARE/India's local capacity building activities

While the construction on the power plant was stalled by protracted negotiations with the Indian government, CARE changed country directors in India The new country director was more open to fully returning to Maharashtra It also became apparent that the partner NGO that CARE had in mind could not handle to quantity of programming the grant would require CARE India and Enron officials in India revisited the proposed project sites and communities and agreed that once the energy project received final approval from the Indian government, CARE would implement several development projects only in Maharashtra. The two sides also agreed to put a senior Enron executive on a managerial committee to oversee the project and give the company input into decision making

Throughout the two-year negotiations, both sides had very different visions of the project CARE wanted to develop a relationship that would provide significant financial support for its work in several countries in which Enron also worked CARE saw this idea as a new model for corporate social responsibility for multinational companies working in developing countries Enron's goal was to gain public goodwill as a good corporate citizen To that end, the company wanted CARE to implement a few quick cosmetic projects that would improve their image in the community and wanted to provide consulting services in countries where CARE does not work

From the experience, CARE learned the importance of following a process while negotiating a partnership and of coordination of both organizations' interests at all levels They now realize that small, incremental steps work best and that a company's public relations expectations can conflict with the mission of the NGO The process resulted in a great deal of important education for both sides

Helen Keller International, the Nutrition Center of the Philippines, the Philippines Department of Health, the Johns Hopkins University, Procter and Gamble

One of the classic cases of a win-win situation is the example of the fortification of Star Margarine in the Philippines The partnership, which involved a nonprofit, the government, an educational institution and a multinational company, serves as a model for how such disparate groups can make a substantial positive impact by working together

The partnership began in 1989 when a professor at Johns Hopkins invited a food scientist from Procter and Gamble to lecture on the benefits of vitamin fortification Their meeting lead to broader discussions about the problem of vitamin A deficiency in the Philippines and whether a Procter and Gamble product could be fortified with vitamin A After a number of discussions in-country, the Nutrition Center of the Philippines and Helen Keller International, both NGOs, joined the fortification effort At the time, Star Margarine, one of Procter and Gamble's local brands, held about 90 percent of the market in the Philippines, but its market hold was starting to slip The partners developed a plan to fortify the margarine with vitamin A, test its effectiveness in reducing vitamin deficiency, and market the product in a smaller, more affordable packages more accessible to the poor

After six months of testing, it was shown that the product had a significant impact on vitamin A levels in school children, and the new product was launched nationwide in 1993 at a press conference where the Secretary of Health described the benefits of the fortified margarine A vast collaborative campaign, including workshops, educational materials, advertising campaigns and a National Micronutrient Day, educated the public about the product, and the Department of Health placed its seal of approval on a product for the first time

The project was a victory for everyone involved a much larger sector of the population received the health benefits of a vital nutrient, while Procter and Gamble's sales soared

Acci6n International, Citibank, Citicorp Foundation

Accion is a nonprofit that helps very small businesses in the Americas through the provision of credit Since 1961, it has been an invaluable resource to 300,000 small businesses through group lending, in which people without collateral can secure loans through groups of peers that guarantee repayment Under this system, now used worldwide, payback rates are around 98 percent, and more than 500,000 jobs have been created

Citibank's cooperation with Accion began two decades ago when Citibank was solely a donor to Accion programs As time passed, their cooperation and partnership expanded to its present level, at which Citibank is contributing $1 5 million over five years for Accion to experiment with loan innovations At one point, Citibank itself had considered getting into the micro lending business, because it wanted the new businesses to become Citibank customers who eventually would take out larger loans and open business checking accounts However, Citibank realized that Accion's nonprofit status gave it more leeway to innovate and created more trust among indigenous populations For this reason, Citibank decided to continue supporting Accion rather than starting its own microcredit program

Representatives of Citibank serve on Accion's board of directors, and the company's staff members regularly provide financial and technical advice Citibank has also helped with legal and regulatory issues by lending the weight of the bank in support of Accion's programs In return, Accion provides Citibank with positive public relations and visibility, and Citibank serves as banker to Accion's assets As a result of the partnership, Citibank has gained more customers as those who graduate from microloans look to the bank to expand their businesses Citibank has also learned from the Accion's innovations, and receives credit through the partnership toward the requirements of the U S Community Reinvestment Act, which requires that banks provide services to the poor

Appendix C:

PUBLICATIONS AND REFERENCES

Appendix C:
PUBLICATIONS AND REFERENCES

References on Corporate Community Investment

Below are the names and sources of some publications on corporate community investment and partnerships Many are written by the CorCom seminar speakers

An Introductory Guide to Corporate Partnerships in India. Sejal Chokshi, Michael T Clark, Dharmesh Vashee, Janet Glover, Nisha Narayanan The U S -India Business Council, U S Chamber of Commerce, 1615 H Street, NW, Washington, DC 20062 Phone (202) 463-5492 E-mail usibc@uschamber com

Business as Partners in Development Creating Wealth for Countries, Companies and Communities. Jane Nelson, Prince of Wales Business Leaders Forum. Available from the PWBLF, 15-16 Cornwall Terrace, Regent's Park, London NE1 4QP UK

Companies in Communities Getting the Measure. David Logan and the London Benchmarking Group A group of senior community affairs officers from six large British companies developed this tool as a way to better define the measures of efficiency and effectiveness of all types of community involvement by using benchmarking techniques Available from Corporate Citizen International, 1 Russell Chambers, Covent Garden Piazza, London WC2E 8AA England

Corporate Social Investment Curt Weeden Berrett-Hoehler Publishers A book on why corporations should move toward strategic investments Available from Amazon com online bookstore (http //www amazon com) Mr Weeden also runs the Academy of Corporate Contributions Management Contact him at director@bnsinc com

"Engaging Corporations in Strengthening Civil Society." Laurie Regelbrugge, Hitachi Foundation In *Sustaining Civil Society Strategies for Resource Mobilization*, Leslie Fox and S Bruce Schearer, editors A Civicus publication

Ethical Issues in Partnerships between Business and Non-Profit Organizations. Report on a seminar sponsored by the Corporate Community Investment Network on June 24, 1998 in Washington, DC Speakers Laurie Regelbrugge of the Hitachi Foundation, Joan Dubinsky of the Rosentreter Group, and Richard Campanelli of Gammon and Grange law firm Send $10 ($12 for addresses outside the U S) to CorCom, Box 18327, Washington, DC 20036-8327 USA

Fostering Intersectoral Partnering A Guide to Promoting Cooperation among Government, Business, and Civil Society Actors. Steve Waddell and L David Brown IDR Report Vol 13, No 3 Available from the Institute for Development Studies, 44 Farnsworth Street, Boston, Massachusetts 02210-1211 USA. Phone 617-422-0422 IDR has a number of other related publications

Global Corporate Citizenship - Rationale and Strategies. David Logan, Delwin Roy and Laurie Regelbrugge. Addresses the evolving role of business in the global community Available from The Hitachi Foundation, 1509 22nd Street, N W , Washington, DC 20037-1073 USA. Phone 202-457-0588

Lessons Learned from Partnerships between Businesses and Non-Profit Organizations. Report on a seminar sponsored by the Corporate Community Investment Network on May 29, 1998 in Washington, DC Speakers Dr Steve Waddell of the Institute for Development Studies at Boston College and Dr Cheryl Lassen of the Sustainable Development Services Project Send $10 ($12 for addresses outside the U S) to CorCom, Box 18327, Washington, DC 20036-8327 USA.

Making Contact Negotiating a Partnership between a Business and a Non-Profit Organization. Report on a seminar sponsored by the Corporate Community Investment Network on April 28, 1998 in Washington, DC Speakers David Logan of Corporate Citizenship Company in London and David Clark of Business in the Community, UK Send $10 ($12 for addresses outside the U S) to CorCom, Box 18327, Washington, DC 20036-8327 USA

Managing Partnerships· Tools for mobilizing the public sector, business, and civil society as partners in development. Ros Tennyson, Prince of Wales Business Leaders Forum A handbook on planning partnerships and tools for building working relationships, creating partnership organizations, and learning and sharing Available from the PWBLF, 15-16 Cornwall Terrace, Regent's Park, London NE1 4QP, UK Distributed in the U S through Pact Publications

Partnerships for African Development Business and Communities Working Together in Southern Africa. Synergos Institute, Prince of Wales Business Leaders Forum, UNDP, ODA and the Ford Foundation Available from the PWBLF, 15-16 Cornwall Terrace, Regent's Park, London NE1 4QP, UK

Partnerships for Sustainable Development The Role of Business and Industry UN Environmental Programme and the Prince of Wales Business Leaders Forum Available from the PWBLF, 15-16 Cornwall Terrace, Regent's Park, London NE1 4QP, UK

Social Responsibility Starter Kit A guide for smaller companies seeking ways to integrate social responsibility with their culture and operations Business for Social Responsibility, 609 Mission Street, San Francisco, California 94105 USA. Phone 415-537-0888

The Corporate Experience in Community Investment. Report on a CorCom seminar sponsored by Pact on July 16, 1996 in Washington, DC Speakers Citibank of New York and its partner, the National Association of Non-Profit Loan Funds Also, Gundersen Lutheran Medical Center in La Crosse, Wisconsin in partnership with Eli Lilly & Co in a diabetes program in Russia Send $10 ($12 for addresses outside the U S) to CorCom, Box 18327, Washington, DC 20036-8327 USA

The Principles of Corporate Community Investment The Indicators. A self-assessment for businesses to assess their current level of community investment and define areas for development Business in the Community, 44 Baker Street, London W1M 1DH, UK Phone 171-224-1600, fax 171-486-1700, http //www bitc org uk

Twelve Keys to Financial Sustainability Cheryl Lassen, Ph D and Jay Banjade, MBA Available from Lassen Associates, 1030 Park Street, S E , Vienna, Virginia 22180 USA Phone 703-281-4535 Lassen Associates has a number of publications on financial sustainability for non-profits

What Kathie Lee Gifford Needs to Know This paper is based on an address that CorCom Director Dr Shirley Buzzard gave to the USAID Development Education Conference It sets out the concepts behind CorCom and how nonprofits and business have evolved toward mutual goals Send $10 ($12 for addresses outside the U S) to CorCom, Box 18327, Washington, DC 20036-8327 USA.

Appendix D:

PEOPLE

Appendix D: PEOPLE

Below are the names and contact information of the CorCom director, project officer and seminar speakers, followed by members of the CorCom practitioners network

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Appendix E:

NONPROFIT ALERT

Appendix E: NONPROFIT ALERT

The followmg ıs an example of a publıcatıon on ıssues relatıng to nonprofit financıal and legal ıssues, publıshed by Gammon and Grange, P C Contact Rıchard Campanellı (see Appendıces A and D) for addıtıonal ınformatıon or permıssıon to use thıs materıal

Gammon & Grange, P.C. NP9110-1

Nonprofit *Alert*®

Alerting nonprofit leaders to key legal developments and responsive risk management steps

A UBIT Primer for Nonprofits

1. Introduction.

A nonprofit youth camp leases its facilities during the off season for weekend business conventions A university-owned and operated bookstore expands its inventory to include items typically found in a drugstore A homeless shelter forms a joint venture with private investors to raise money for the construction of a new facility A public foundation begins a fund raising campaign with a commercial credit card company to receive contributions every time consumers use that particular credit card

What do these nonprofits have in common? Unrelated business income the income produced in each example could—if not properly planned and handled—trigger tax liability and reporting requirements for each nonprofit Tax exempt status may also be endangered if the income is substantial

In recent years, the IRS has collected record amounts of taxes on unrelated business income earned by charities In 1996 alone, charities paid $502 million in unrelated business income tax (known generally as "UBIT") Statistics released by the IRS indicate a total of 50,034 charities filed 1996 tax returns reporting this record amount of UBIT—up from a total of 24,103 returns filed in 1985, which listed only $30 2 million in UBIT This staggering increase grabbed the IRS's attention and resulted in additional enforcement and review efforts aimed at all charities

2 The Rationale for UBIT.

Unrelated business income tax, or UBIT, is a tax levied by the IRS in an attempt to prevent exempt organizations from gaining an unfair advantage when competing with for-profit enterprises The IRS may tax any income an exempt organization earns from activities unrelated to that organization s exempt purpose The rationale is that an organization s charitable purpose is what entitles the organization to its tax exemption in the first place, any income-producing activities beyond that purpose tend to resemble commercial enterprises that compete directly or indirectly with for-profit businesses

Three issues are key to understanding the tax code s treatment of UBIT (1) unrelated business activity, (2) debt-financed income, and (3) UBIT exemptions These are discussed in more detail in the next three sections

3 Unrelated Business Activity

Income earned by a nonprofit from a specific activity is subject to UBIT if the activity constitutes an unrelated trade or business that is regularly carried on and not substantially related to the organization's exempt purpose [1] If the primary purpose of the activity is purely profit-making, then the activity is likely an unrelated trade or business This is especially true if the activity is comparable to goods or services provided by commercial businesses

Consider this example An exempt organization, formed to increase the public's awareness and understanding of environmental issues, operates a bookstore The store sells books that educate the reader about the environment, but it also sells gift cards, calendars, and other memorabilia bearing the name of the organization Income derived from the sale of books should not be subject to UBIT because the books further the organization's exempt purpose of public education and awareness But income from the gift cards, calendars, and other items would probably be taxable because the sale of these items do not primarily advance the organization's exempt purpose Suppose, however, that the organization designed the calendars and gift cards so that pictures of endangered animals were featured, along with an explanatory paragraph about the species' disappearing natural habitat Now, the sale of these items would probably escape UBIT because they have become primarily educational in nature instead of purely profit-making

3 1 "Trade or Business"

Generally, any activity conducted to produce income from the sale of goods or services with a profit objective, is a trade or business for purposes of UBIT [2] The courts have rejected the historic test that a trade or business requires "holding oneself out to others as engaged in the selling of goods or services " That test was considered overly restrictive Instead, counts now rely on a "facts and circumstances" test so that the overall activity is examined This means an activity could actually constitute a trade or business when undertaken only by a tax exempt organization in the context of a larger operation of endeavors, many of which may be related to exempt purposes, even though the activity itself does not in fact result in profit [3] However, the Supreme Court has noted that "trade or business [is a] concept which falls far short of reaching every income or profit making activity "[4]

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[1] Internal Revenue Code, §512 & §513

[2] IRC § 513(c) Reg § 1 513-1(b)

[3] IRC § 513(c)

[4] *Whipple v Commissioner*, 373 U S 193 197, 207 (1963)

Thus typical investment activities or even more exotic securities lending transactions[5] have been held not to constitute a trade or business even though these activities produce a profit Similarly charging a fee for offering exempt services is not a trade or business For example charging tuition or lab fees does not engage an educational institution in a trade or business for purposes of UBIT Such activity is substantially related to the institution s exempt purposes (See Section 3 3 below)

3 2 *Regularly Carried On '*

A trade or business is normally considered ' regularly carried on" if the organization engages in it continuously or frequently and does so in a manner similar to comparable commercial activities undertaken by for-profit entities [6] Generally activities held only once a year for a week or less would not be classified as "regularly carried on " For instance, holding an annual charity dance or running a hot-dog stand at the state fair every year is not considered 'regularly carried on But, activities held weekly, monthly, or even less frequently may be deemed "regularly carried on if the planning and execution of the activity represents an ongoing effort by the organization In one case, the IRS collected UBIT on revenue received by a state trooper's association from the sale of advertising in the association's annual yearbook The IRS said the ad sales were a year-round sales activity because the association contracted with professional solicitors who handled production and solicited advertising through a telephone campaign that continued for approximately 46 weeks each year [7]

This is also true of activities that a nonprofit pursues in a manner competitive with or comparable to commercial activities, even if they are only seasonal in nature For example, the IRS assessed UBIT against a nonprofit organization for income it received from the sale of bumper stickers buttons, t-shirts, and related items partly because they were sold in direct competition with commercial vendors at seasonal sporting events The items all carried athletic logos of the teams, players or events, but nothing identified the items with the nonprofit Commercial vendors sold the same or similar items at the same sports events The IRS considered this activity "regularly carried on" despite its seasonal aspects, and noted that the nonprofit pursued the activity in a very competitive manner [8]

3 3 *Substantially Related"*

An activity is considered "substantially related" if there is a significant causal relationship between the activity and the achievement of the organization's exempt goals The activity must contribute importantly to accomplishing the organization's exempt purpose [9] For example, sales of certain

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[5] In a typical securities lending transaction the tax exempt organization lends securities such as stocks and bonds from its investment portfolio to a brokerage house, to enable the broker to deliver securities to cover either short sales or failure to receive securities The broker posts cash collateral with the lending institution in an amount exceeding the fair market value of the securities loaned, and the brokerage house pays the lending organization a fixed fee or pre-determined percentage premium In Rev Rule 78-88, 1978-1 C B 163, the IRS ruled that securities lending is a form of "ordinary or routine investment activities" and thus not a business

[6] IRC 1 513-1(c)(1)

[7] *State Police Assn of Massachusetts v Commissioner*, T C Memo 1996-407

[8] IRS Private Letter Ruling 9652004

[9] IRC Reg 1 513-1(d)(2)

children s items in a gift shop operated by an art museum were exempt from UBIT the IRS rule because they related directly to the museum s educational purpose The exempt items include kaleidoscopes paint sets and other items designed to develop fine art skills and a child's awarene of his or her artistic ability However the IRS rejected other items including building blocks ar toys because they only developed a child s general knowledge and were not expressly education in nature according to the IRS [10]

Clearly, the IRS draws a fine line here as to what is and what is not substantially related based c all the facts and circumstances of a case Illustration of this fine line can be seen in other cases well In one example a school operated a ski facility for the general public but use of the facili by the school's students for recreational purposes and for physical education programs was rel-- and did not result in UBIT In another case, a school s use of its tennis facilities to operate a publ tennis club for the summer generated UBIT but if the school had leased its tennis facilities outsiders who would have staffed and operated the tennis club, then it probably would not gener UBIT The IRS also assessed UBIT in the following diverse activities

- Pet boarding and grooming services for the general public by an exempt organizatio operated to prevent cruelty to animals,
- Weekly bingo games by a social welfare organization,
- Sale of blood by a tax-exempt blood bank to commercial laboratories,
- Sale of appliances to senior citizens by a tax-exempt senior citizens center,
- Performance of language translation services by a tax-exempt trade associatic promoting international trade relations,
- Operation of a commuting program by a tax-exempt labor union,
- Distribution of business directories to new residents in a community,
- Sale of work uniforms by a tax-exempt union,

On the other hand, the IRS found no UBIT in the following activities

- Operation of dining room cafeteria and snack bar by a tax-exempt art museum for staff, employees, and visiting members,
- Sponsorship of championship tournaments by a tax-exempt sport-promot-- organization,
- Operation of beauty and barber shop by a tax-exempt senior citizens center,
- Sale of greeting cards and art reproductions by tax-exempt museum,
- Sponsorship of weekly dances by a tax-exempt volunteer fire department,
- Provision of services to facilitate court proceedings by telephone,
- Operation of a lawyer referral services by a tax-exempt bar association,
- Performance of management services for a tax-exempt charitable organization,
- Provision of veterinarian services by a tax-exempt humane society,
- Sale of products during the operation of a nonprofit educational program,
- Sale of computer software by a tax-exempt organization formed to publish promulgate new scientific technology,
- Operation of golf courses to promote rehabilitation of disadvantaged youth,
- Sale of posters and other promotional items carrying the tax-exempt organizatioi program message,

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[10] IRS Technical Advice Memo 972002

- Sale of life insurance on the lives of donors by a tax-exempt charitable organization
- Sale of reproductions by a tax-exempt art museum

4 Debt-Financed Income

Revenue from rental property is not subject to UBIT unless the property is debt-financed through a mortgage or other debt instrument Debt-financed property is any property held to produce income and on which a mortgage or other indebtedness was incurred in acquiring or improving the property anytime during the taxable year [11] This includes debts incurred before or after the property was acquired or improved, such as when an organization accepts charitable gifts or bequests of mortgaged property But for a few exceptions noted below income from debt-financed property (unlike passive income from all other property) is always subject to UBIT

4 1 Neighborhood Land Rule

If an exempt organization acquires property in the neighborhood of other property owned and used by the organization, and it intends to use that new land for its exempt purposes, the property is not treated as debt-financed so long as the organization does not abandon its intent to use the land within a ten year period There are many nuances to the neighborhood land rule, however, including a special fifteen year period for churches Seek experienced legal counsel before applying these rules to your particular situation

4 2 Use Exception

If "substantially all" (*i e*, 85%) of a property's use is directly related to the performance of an organization's exempt purpose, then no part of the property is treated as debt-financed [12] This means an exempt organization could lease out up to 15% of its mortgaged office building without incurring UBIT However, the IRS looks at all the facts surrounding a particular situation when assessing how much of a property's use is directly related to an organization's exempt purpose The IRS may compare the time the property is used for exempt purposes with the total amount of time the property is used overall Alternatively, the IRS may compare the portion of the property used against the total use, or the IRS may use a combination of these two methods If, however, the property is rented to a related tax-exempt organization, and it is only used to further the exempt purposes of that organization, the rental income may not be subject to UBIT at all

4 3 Ten-Year Exception

If an exempt organization receives property by bequest or devise, but the property is subject to a mortgage a separate provision in the tax code exempts the outstanding principle debt from UBIT for up to ten years from the time the organization receives the property Likewise, if an organization acquires mortgaged property by gift, the same ten-year exception will apply, provided the mortgage was placed on the property more than five years before the gift was made *and* the donor held the property for more than five years before giving it to the organization

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[11] Internal Revenue Code, §514(b)

[12] Internal Revenue Code, § 514(b)(1)(A)(I)

4 4 *Charitable Gift Annuities*

Charities that issue gift annuities need to comply with special rules to avoid generating UBIT when funding a CGA with property other than cash If the value of the annuity is less than 90% of the value of the property the donor gives to the organization through the annuity, *and* only two annuitants are named on the annuity, *and* no minimum or maximum number of payments is specified then the debt-financed income rule does not apply Application of this rule is quite complex so consult with experienced counsel, if your organization permits donors to acquire CGAs through gifts of real or personal property [13]

5 Exemptions From UBIT

Income-generating activities may escape UBIT if they are not trade or business activities, or if they are not regularly carried on, or if they are substantially related to the organization's exempt purpose In addition to these three criteria discussed in Section 3 above, the IRS has also specifically exempted the following types of income from UBIT

5 1 *Volunteer Work*

Any income derived from a trade or business where substantially all the work (*i e* at least 85%) is carried on by volunteers is exempt from UBIT This is the result even if the activity is not related to an organization's exempt purpose For example, a tax-exempt private school relied on volunteers to sell discount coupons as a fund raiser The IRS said the coupons were completely unrelated to the school's exempt purpose, but because the sales were conducted by volunteers who received no compensation, the IRS ruled the activity met the volunteer exemption from UBIT [14]

This exemption is lost if the volunteers are compensated for their work in any significant way In one case, the IRS assessed UBIT against an organization that relied on volunteers to sell hats, t-shirts and related merchandise at sporting events Although the volunteers were not paid for their work, they received other benefits connected with their sales, including transportation, lodging, meals, clothing and a stipend, which the IRS said they would not otherwise have received This made the activity an unrelated trade or business in direct competition with commercial vendors who sold similar products at the same events [15]

5 2 *Convenience*

Any income derived from a trade or business carried on primarily for the convenience of the members, employees, students, patients, or officers of an exempt organization is generally exempt from UBIT For example, income from a cafeteria operated for the benefit of the organization's employees would not be subject to UBIT

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[13] For general information about annuities, refer to **Nonprofit *Alert*®** Memo NP9403-2, *Guidelines for Charitable Gift Annuities* available from Gammon & Grange, P C

[14] IRS Private Letter Ruling 9704012

[15] IRS Private Letter Ruling 9652004

5 3 Donated Merchandise

Income received from operations or activities where substantially all the merchandise is donated is exempt from UBIT This includes thrift shops operated by a nonprofit where all the items offered for sale are given to the nonprofit by donors Classic examples are the thrift stores operated by the Salvation Army and Goodwill Industries

5 4 Bingo

Income received from bingo activities that are legal under state law and not in competition with commercial bingo operations is exempt from UBIT Consult legal counsel to clarify state and local laws governing your organization

5 5 Passive Income

Passive income, such as that received from dividends or interest is excluded from UBIT (except where it is derived from debt-financed investments or from a "controlled organization," see Sections 4 & 6 1) This includes most of the temporary and long-term investments that charitable organizations traditionally hold in endowment funds or other support funds It also includes royalties from licenses patents, trademarks, and mineral rights that a charity might hold Income from the sale of real or personal property (*i e* capital gains) falls in this category as well, although it does not include income from property that is considered inventory or debt-financed

5 6 Rental Income

Rental income from personal property such as equipment or automobiles is subject to UBIT But rental income from real property is exempt, provided the property was not purchased or improved with debt-financed funds (see Section 4) For example, no UBIT was created when an art museum rented space in its office building to the public for special events The Tax Court said that the special events exposed the museum's artwork to an audience that otherwise would not have seen it Thus, the rental activity was substantially related to the museum's exempt purpose [16]

However, rent from real property where significant services are provided, such as hotel rooms, is not exempt from UBIT This was the case when an educational organization rented its facilities to corporate and business patrons for special events Although the events were usually planned in connection with new exhibits at the organization, tour guides were present to give tours of the facilities and provide additional services The IRS said the educational aspects of the tours were only ancillary to the main purpose of renting the facility, which was generating additional income for the organization Thus, the income was subject to UBIT [17]

5 7 Rental Income From Mailing Lists

Recent court challenges to the IRS's treatment of mailing list income have resulted in mixed opinions In a widely reported case, the 9th Circuit ruled that revenue the Sierra Club received from

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[16] *John W Madden Jr et al v Commissioner* T C Memo 1997-395

[17] IRS Technical Advice Memo 9702003

the sale or rental of its mailing list was not taxable as unrelated business income Such proceed the court said, are royalty income not subject to UBIT The court based its decision on facts th. showed the Sierra Club had only a minimal connection to marketing its list The organization w not involved in sorting or providing names or labels and it didn't handle the list or provide any othe related services Stressing these factors, the court avoided a broad decision that would have mad all mailing list income safe from UBIT Although the court left open the possibility of taxin mailing list income in other situations, it took the unusual step of defining certain activities th would *not* be taxable, such as providing a price list of rental fees or retaining the right of fin. approval on the use of a copyrighted item [18] Still, challenges to this case and others like it ar pending in federal court If your organization receives income from the rental or sale of its mailin list, consult legal counsel to determine your UBIT risk However there is a specific exemption fo certain exchanges and rentals of mailing lists by religious or other charitable exempt organization eligible to receive tax-deductible charitable contributions under IRC §170(c)(2)or(3) If the: organizations exchange or rent donor or membership lists with or to *other such organizations* UBI' is not incurred

5 8 Corporate Sponsorship Payments

Income that a nonprofit receives from a corporate sponsorship is not subject to UBIT unless ther is an active or overt promotion of the sponsor's product(s) and/or the payments are contingent o an "audience variable" (*i e*, attendance, participation, etc) This rule still applies even if th nonprofit gives insubstantial benefits in return for the sponsorship payments, such as the incidenta use of the sponsor's name or logo [19] There are extensive and complex rules that govern the does -- don'ts of corporate sponsorship, so if your organization is planning to pursue such arrangement: consult with counsel early in the planning process

6. Common Sources of UBIT.

6 1 Controlled Organizations

The exemptions for rental and passive income discussed above in Sections 5 5 & 5 6 do not appl, if an exempt organization receives such income from a "controlled organization " This generall, arises only when an exempt organization controls, or operates in some way a subsidiary organization A "controlled organization" is one in which an exempt organization maintains 50% or mo.. ownership by vote or value [20] This means exempt organizations that "control" 50% or more of . subsidiary are taxed on any royalties, rents, or interest received from the subsidiary Applying t' rule can be quite tricky, however, and requires professional counsel

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[18] *Sierra Club v Commissioner* No 95-70112 (9th Cir 1996), *upholding* T C Memo 1993-199

[19] P L 105-34, as enacted August 5, 1997

[20] Internal Revenue Code §512(b)(13) Note this 50% figure came into effect with passage of the Taxpayer Relief Act of 1997 P L 105-34 Prior to that law, the tax code specified an 80% control test. For more information about the control test, refer to Nonprofit *Alert®* Memo NP9304-1, *Organizing the Nonprofit and Its Subsidiaries* available from Gammon & Grange P C

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6 2 Solicitation Gifts & Premiums

The IRS does not consider the distribution of low-cost gift premiums by exempt organizations to be a trade or business so long as the organization uses such items as an incidental addition to its fund raising or other solicitation campaign To qualify, the items must be sent unsolicited to potential donors along with a request for a donation and a statement that the gift may be kept whether or not a donation is made In addition the items must be valued at under $5 in 1988 dollars If multiple items are sent to one person in a single year, the aggregate value of the items cannot exceed that same figure

6 3 Advertising and Publication Fees

Income derived from commercial advertising in journals or other exempt organization publications is often subject to UBIT, but the rules are complicated and the cases are not always consistent If, however, the advertising takes the form of an encyclopedic and uniform listing of vendors, such that it is a service for the readers and significantly promotes the organization's exempt purpose rather than serving merely as commercial advertising, there is a stronger argument that the income is exempt from UBIT The connection between the ads and the organization's exempt purpose must be obvious and significant, however, as one nonprofit discovered after the IRS assessed UBIT on ads it sold in its monthly publication and trade show directory The IRS recognized the instructional and informative nature of the ads in both publications, but said they were not overtly educational The ads in the organization's monthly publication did not relate to its editorial content, and the ads in the trade show directory were nothing more than an "exploitation of the annual convention," the IRS said [21]

6 4 Joint Ventures

Joint ventures such as partnerships between an exempt organization and a for-profit, or the rental of an exempt organization's name to a for-profit for use on a credit card or other such promotion can result in UBIT if not carefully planned and structured Through numerous private letter rulings, the IRS had developed detailed guidelines that should be followed when an exempt organization enters into a partnership with a for-profit For example, the partnership must have a dominant and demonstrable charitable purpose and must permit the exempt entity to act primarily to further its own exempt purposes Always consult counsel before establishing a joint venture with a for-profit

6 5 Travel Tours

IRS auditors have turned more attention in recent years to nonprofit travel tours amid increasing complaints from the travel industry about unfair competition from charity-run tours Tax laws permit charities to organize tours for educational purposes, but travel industry executives have complained that tours operated by organizations like the Smithsonian Institution and the YMCA are more recreational than educational In one representative case, the IRS responded by holding an exempt membership organization liable for UBIT on income earned from certain travel tours it conducted for members Although some of its tours had educational, religious, or historic objectives that furthered the organization's exempt purpose of supporting the creative survival and unity of a certain culture, other tours were primarily social or recreational The IRS assessed UBIT on these

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[21] IRS Technical Advice Memorandum 9724006

tours[22] Charities should carefully document their tour-planning processes and structure all travel and tour packages to clearly focus on education or other exempt purposes Charities should use qualified instructors or professors to help conduct the tours and to distinguish them from purely recreational outings Counsel should be consulted in the initial stages of structuring such tours

6 6 Golf Courses & Athletic Facilities

Income generated by granting public access to these facilities often produces UBIT because few organizations are able to show that the public use of such facilities supports their exempt purpose in any clearly defined way Colleges and universities are especially prone to these UBIT problems because many operate these facilities as part of their regular curriculum (which is exempt) but when they sell public memberships, charge admission or greens fees, rent out the facilities, or otherwise receive income from the non-educational use of such facilities, then UBIT applies For example one university operated a golf course for its alumni, students, president's club members, employees, and guests The IRS ruled that income was subject to UBIT because this extensive public use of the golf course made its purposes far from exempt[23]

However, it is possible to show a direct connection between these facilities and an organization's exempt purpose A nonprofit vocational training organization escaped UBIT on fees it earned from operating a golf driving range because the range was part of its training program for troubled teenagers Other programs operated by the organization also passed the UBIT test, including a furniture upholstery business and a seasonal produce sale The IRS recognized the overriding aspect of training inherent in each program and determined they all furthered the organization s exempt purpose[24]

7 Managing UBIT in the Nonprofit Organization.

To put this discussion in perspective, remember that a tax means there is underlying income, and income is generally a good thing Thus, it is not necessarily problematic for an exempt organization to generate unrelated business income In fact, unrelated business enterprises can be an appropriate way of making better use of an organization's capital equipment and resources, while simultaneously providing an additional revenue source For example, a nonprofit youth camp using its facilities only one-third of the year might benefit more from its capital investment by offering its facilities for use as a business conference center during the off-season A university that utilizes its own high-quality print shop at less than full capacity might wish to extend its services to the general public Paying UBIT on the net income generated by these activities does not jeopardize the organization's tax exempt status so long as the activities are not a substantial part of the organization's operations The key is maintaining these activities at an insubstantial level While the IRS has never quantified this threshold, many commentators agree that when UBI pushes above the 20% level, as compared to gifts, grants, and exempt function income, it is time for a legal evaluation At that point, the exempt activity could be spun off into a controlled, for-profit subsidiary However, local property taxes state sales taxes, various state and federal wage-hour regulations, and other legal issues must be carefully evaluated with the help of legal counsel

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[22] IRS Technical Advice Memorandum 9702004

[23] IRS Technical Advice Memorandum 9645004

[24] IRS Private Letter Ruling 9718034

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7 1 Reporting UBIT

An organization with gross income of $1,000 or more arising from unrelated trade or business must file an IRS Form 990-T, Exempt Organization Business Tax Return and pay any tax due on net income Net unrelated business income in excess of $1,000 is taxed at the normal corporate or trust rate Organizations with substantial UBIT should pay it quarterly on an estimated basis for both federal and state obligations To simplify this burden, separate accounting records should be maintained that identify all sources and expenses associated with UBIT

7 2 Management Options

If unrelated business income becomes a substantial part of an exempt organization's total activities, the organization has several options If the activity itself could qualify for tax exemption, but is not covered under the organization's current exempt purposes, the organization could attempt to redraft its basis for exemption Or, more commonly, a spin-off exempt organization could be formed When the income-producing activity does not qualify for tax exempt status, a for-profit subsidiary could be formed [25] This should not jeopardize the current organization's tax-exempt status Remember, however, that such restructuring is only necessary if the income-producing activity nears the threshold of becoming a substantial part of the organization's total activities

8 Conclusion.

When properly managed, UBIT offers significant opportunities for creative and productive stewardship of under-utilized resources, staff, and services of exempt organizations Improperly handled, UBIT presents substantial pitfalls For churches and certain small organizations that do not currently file annual 990 reports, incurring UBIT will create a filing requirement for the first time that, for some organizations, is a strong deterrent. If the filing requirement itself is not a problem, often little or no UBIT liability is created because of offsetting expenses The proper allocation of expenses in computing UBIT is a complicated subject beyond the scope of this memo, but certainly UBIT should not be avoided simply because there may be potential tax liability Careful planning for the right organization under the right circumstances may result in UBIT being the gap-filling revenue source that a charity needs to survive

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[25] For more information, refer to **Nonprofit** ***Alert*®** Memo NP9304-1, *Organizing the Nonprofit and Its Subsidiaries* available from Gammon & Grange, P C

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