



International non-government organisations and social enterprise

Coming together for 'good'

CID brief

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Are today's international NGOs destined to become tomorrow's social enterprises?

Social enterprise is the current buzz word. New social enterprises are emerging and existing ones are growing from strength to strength, embracing both profit and positive impact.

Not-for-Profits may be forgiven for watching with envy as these self-sustaining organisations bring about social change while avoiding fundraising events, complicated grant and reporting processes, visits to government for funding and expensive public fundraising campaigns.

The New Zealand international NGO (INGO) sector is already experiencing many challenges: how to optimise and measure impact; how to demonstrate value-add, and contributions to development goals; and how to better support local partners in developing countries. The social enterprise model is a tempting answer.

Setting the scene

1. Trust

According to a study by [Victoria University's Institute for Governance and Policy Studies](#) (March 2018), trust in charities and (large) businesses are trending in opposite directions - moving down and up respectively, at almost the same rate (charities down 3% with business up 2%). While trust in charities remains higher overall than businesses (76% to 60%), the net decline is significant at 5%: those reporting trust in charities outweigh those reporting little to no trust by only 2%, versus 9% in 2016. There is also a lower proportion of no trust in businesses - 9% in 2018 versus 13% in 2016. The incoming generation (aged 18-29 in 2018) is also less trusting overall than those aged 30 and up, almost 10% below the national trust average of 47%.

Rather than a cause for despair, this can be seen as an invitation to a new and better way of working for both sectors: one centred on collaboration, partnership, and mutual benefit. Social enterprises – a growing sector moving from strength to strength in New Zealand and around the world ([Clayton 2017](#), [British Council 2015](#))- embody this approach.

2. Funding

INGOs are increasingly realising the inadequacy of classic funding methods as donations decline and governments shake-up budgets. They need guaranteed stable income to plan effectively and maximise impact, so exploring social enterprise, both in terms of partnerships and organisational structure, may be a pathway to innovative adaptation.

3. Sustained Impact

Outcomes are a continued focus in measurement of impact for INGOs. A constant challenge is the sustainability of outcomes and ensuring the benefits will continue beyond the life of the project or programme. Leveraging social enterprise models to enhance international development projects and programmes presents an opportunity to ensure beneficiaries can continue to generate profits and simultaneously realise social impact beyond the end of the programme.

4. The Millennial Factor

The millennial generation is not content with the traditional approach. With a sharp decline in trust in institutions, a preference for ‘horizontal’ civic engagement and an interest in community-oriented ways of working, staying with the current status quo risks alienating a large and crucial population for both business and charity.

[Research indicates](#) millennials are driven by a global social conscience, with many choosing their career by issues [they care about](#). However, they are a group burdened by significant economic challenges: [Pew Research](#) finds millennials have higher levels of student loan debt, poverty and unemployment, and lower levels of wealth and personal income than their two immediate predecessor generations at the stage of their life cycle - a [‘first in the modern era’](#). Even without reputational and trust issues, donating to charity in the traditional sense simply doesn’t make financial sense.

Still, social responsibility is a core priority to millennials. According to a [United States Treasury survey](#), the digital generation is investing more in, and prefer working with, socially responsible entities – but their approach to doing this requires some rethinking on an institutional level. [Positioning individuals as part of the solution](#), as opposed to an organisation itself is a strategy that hits home, and has been implemented by some newer charitable organisations and giving platforms. The millennial audience responds to cause and values rather than to brand promotion, and social responsibility and charitable engagement is at its most attractive when tangible. Social enterprise models, such as ‘buy-one-give-one’ and trust-owned business, meet this desire. They also have the stability and long-term planning benefits of self-generated revenue. Meanwhile INGOs have a large scope for impact and often have strong, long-standing networks across sectors and throughout multiple countries. Partnership and shared learning between these two groups represent a significant opportunity for capturing the millennial generation as its position of increasing influence eventuates.

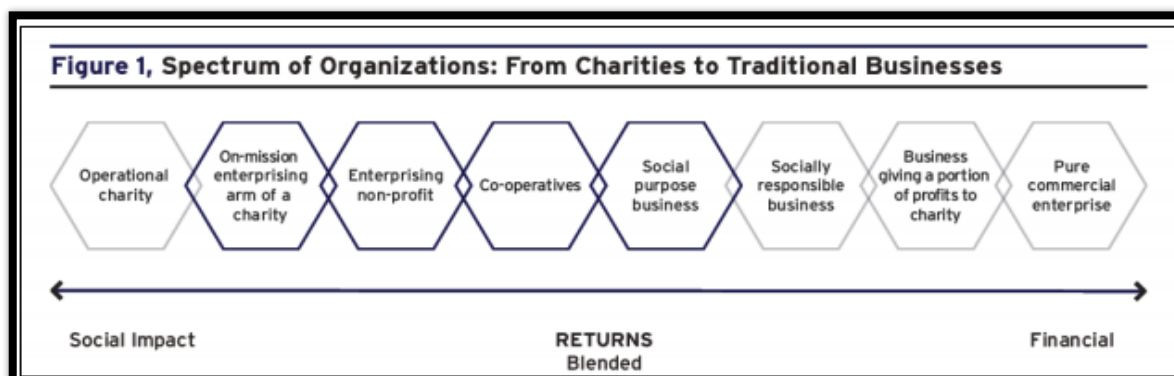
Putting it all together

What follows is an exploration of social enterprise in the context of their becoming partners with INGOs, including the risks, challenges, and benefits. Drawing from national and global research, as well as original content from the Council for International Development’s event ‘What can NGOs and social enterprises learn from each other?’ run in partnership with the Ākina Foundation on 10th August 2018.

Definitions and due diligence

Social enterprise is a term used both in New Zealand and internationally.

Those in the sector acknowledge that agreement of a definition of the term is a major challenge. Creating something broad enough to recognise and encourage the multiplicity and innovation that characterises the sector, but narrow enough to maintain the integrity of the term is no mean feat.



Some of this difficulty in defining social enterprise comes from the tendency to think of “businesses” and “charities” in binary terms, whereas they really sit on a spectrum – depicted in the above figure by the Todd Foundation. Most businesses have some form of commitment to the social world, and, based on returns to the Charities Commission, 38% of income received by registered charities in NZ is earned through the provision of services and trade¹.

Currently in New Zealand, much of the definition debate surrounds legal structure. The trickier conversation, however, may be around impact standards as a framework of legitimacy². Whereas an INGO must report on use of funds and demonstrate positive impact to secure and maintain support, social enterprise (like traditional businesses) are bound only by consumer interest. A lack of impact standards attached to the term creates the opportunity for its exploitation, where – similar to the present phenomena of ‘greenwashing’ – an organisation may claim ‘social enterprise’ as a marketing tool, capitalising on consumer desire to ‘vote with their wallet’ and support goods doing good.

The tension, then, is with the heavy burdens involved in certification - longstanding social enterprises like Trade Aid find themselves and their community partners investing significant resources in achieving multiple certifications - and the eradication of meaning, value and trust in a free-for-all term that means ‘real’ social enterprises have to separate themselves yet again from the traditional market. While not in any way binding, the definitions of social enterprise that exist are at least helpful as navigational tools – and as pointers for the basic intent of the sector.

The UK Office of the Third Sector describes social enterprise as: “businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners”.

Compatibility of NGOs and Social Enterprise

From an INGO sector perspective, a potential criticism of social enterprise sector relates to the need to 'do no harm'. As we know, at the heart of development and humanitarian organisations are a solid core of principles, anchored in a long, diverse history of working for positive change while minimising harm. A critique of social enterprise 'Doing good' is relatively easy, but doing good without causing harm is infinitively more difficult. Development and humanitarianism are highly complex endeavours, and without a core of those solid development principles and a mechanism to keep accountable to them, the sociality of an enterprise is largely moot³.

Secondly, there is the issue of impact measurement. As trust declines and support stays tenuous, INGOs can little afford to take chances with their brands. High risks exist in working with social enterprise if there is no robust and mandatory evaluation of impact.

This is where the value of partnerships becomes clear. There are distinct areas where the NGO sector and Social Enterprise sector function best, determined by different areas of expertise and ways of working. These are compatible enough to not only harmonise, but converge: NGOs have for many years used social enterprise models to generate additional revenue streams (such as second-hand shops, holiday memorabilia, and, in the case of SPCA New Zealand, a cruelty-free certification). Social entrepreneurship, a quality often influencing the style and nature of businesses in indigenous and developing communities, has stimulated significant progress on social and environmental outcomes.

New Zealand's Trade Aid is a longstanding example, working with over 65 trading partner organisations and providing a fair and stable income for hundreds and thousands of small-scale farmers and artisans across Africa, Asia, Latin America, Palestine and the Pacific, as are organisations like 'Tiwale', a for-profit social enterprise in Malawi founded by 17-year old Ellen Chilemba. Tiwale has supported 150 women with business and vocational training, and helped 40 women start businesses or find employment over its 3 years of existence, following an impact model that commits to innovating new approaches and truly empowering its women participants⁴.

As INGOs face increasing challenges, and social enterprises remain without legal accountability or mandatory evaluation and reporting standards, to continue to run in separate yet constantly overlapping circles seems to be a way of madness. While it is well understood that first the NGO sector exists separately from the business sector for good reason, and secondly a social entrepreneur would require many lifetimes to develop the networks and knowledge of a high-impact INGO, there is always room for passion and partnership in the 'good' ecosystem. Partnership can be a means through which to negate the limitations of both parties, and although early days, establishing a mechanism of discovery and collaboration is an essential next step for the social sector at large.

CASE STUDIES: The good, the lessons-learned, and the not-for-loss

The good: indigo&iris

A 'beauty brand that gives a damn', indigo&iris sells makeup to support the Fred Hollows Foundation, an Australasian NGO that works to end avoidable blindness in the Pacific. They raised \$128,000 of start-up capital in 3 weeks through a kickstarter campaign, and, in just 3 months of being on the market, have donated enough from sales to fund 120 life-changing eye surgeries.

Behind indigo&iris is a journey that models an ideal for a social enterprise-NGO union.

- Having been involved with Amnesty and UNICEF during high school, founder Bonnie Howland knew **the complexity and extent of knowledge and principles inherent to an effective NGO**. She states while she'd 'never dream' of starting a charity, social enterprise was a way to act on a problem she became passionate about during a stint to Vanuatu: avoidable blindness
- Recognising the success of the organisation directly addressing this issue was down to a highly specialised skill set, a strong network of local partners, and a robust base of brand-recognition and trust among the community, **Bonnie came to them - Fred Hollows New Zealand – very early in the process of creating her business with the promise of providing the most basic and effective form of support - revenue**. She acknowledges Fred Hollows NZ received her idea with caution at first – a charity's name can little afford to be associated with anything other than integrity – but as she continued to demonstrate commitment, authenticity and a desire to align values in building indigo&iris, the relationship grew and strengthened.
- **indigo&iris uses a whole-system approach to sociality**, built off sustainable procurement. Their first product, levitate mascara, is vegan friendly, cruelty-free, and ethically produced, formulated using organic coconut oil from Samoa to deepen its positive connection to the Pacific Islands
- The company uses a straightforward 'bankrolling' approach to the problem it was inspired by, donating 50% of its profits to help end avoidable blindness in the Pacific.
- Bonnie and her business partner Hannah Duder are (voluntarily) **dedicated to keeping accountable to their impact**, 'screenshotting' each donation to Fred Hollows NZ and posting openly and accessibly on social media profiles
- Bonnie and Hannah have **taken every step to be a reliable source of income** for Fred Hollows as long as indigo&iris is in business. The company structure is twofold: a business and a trust, where the trust owns the business and the latter is thus legally bound to donating 50% of profit (and the pre-profit portion of income) from mascara sales to Fred Hollows
- **The focus of indigo&iris is good business**. Bonnie and Hannah are clear that Fred Hollows NZ is doing the 'real' charity work – the focus of indigo&iris is, as a business, making money off a quality product. They see social enterprise is about ensuring that our impact on the world is only positive and that our profits can actually do good in the world.

The 'lessons-learned': TOMS Shoes

Blake Mycoskie launched Toms Shoes in 2006 as a buy-one-give-one enterprise, with the idea that shoes donated from each purchase would reduce common health issues and boost school attendance in impoverished communities. What it did instead was promote a 'hand-out' mentality among recipients, reduce time spent on homework, put local shoemakers out of business, and, as an excellent marketing campaign, divert a lot of well-intentioned money in to an endeavour doing more harm than good.

What went wrong:

- **No consultation with local community** about what would solve health problems and missed education.
- **A short-term, surface-focused fix** to deeply systematic issues in need of long-term, multi-faceted economic development, health, sanitation, and education solutions. While it's much safer for kids to be running around with shoes than without, TOMs didn't address the reasons why they were going without shoes in the first place.
- **A disassociated supply-chain.** Shoes sold and donated came from outside producers and thus contributed to outside economies and employment opportunities

These are lessons long since learned by development and humanitarian NGOs. While changes made from the impact evaluation – TOMs has expanded beyond shoes to more thoughtful forms of giving, such as a birth kit donated with the sale of every TOMS bag, and money for clean water donated with sales of TOMs coffee the company sells, as well as working to source donated shoes from local producers – are steps in the right direction, they come after a 60 million donated shoes and, at \$54+ a pair on the buy-one side, the millions of essentially wasted dollars that represents.

In this way, TOMs is a prime example of the need to have a strong system in place for a robust 'harm-done' test of social business ideas. Given the importance of a charity's name, 'brand' and reputation, moving to partner with an NGO early in the process is an assured way to face the hard questions of most-good, least-harm, and adapt for the better.

Hybrid: the not-for-loss approach of Family Planning New Zealand

Family Planning New Zealand has a history of balancing enterprise and NGO work, developing pockets of revenue by monetising their services.

- By adjusting to a 'not-for-loss' attitude over the traditional 'not-for-profit' view that tends to alienate options for self-sustainment, **valuing services an NGO runs or could run** in close alignment with their core purpose can usefully accentuate base income, and soften the strain on function and planning that comes with grant financing
- Family Planning NZ also make use of **the opportunities afforded by their brand** to sell reproductive health products at a modest mark-up - a means to engage a range of audiences with their work.
- Family Planning NZ is too open to **exploring different ways of working** to improve sexual and reproductive health around the world. Currently, Family Planning NZ are partnering with social enterprise GOOD Travel to launch the Kiribati Discovery Tour, an endeavour designed to increase knowledge about this little-visited Pacific country and the unique sexual and reproductive health and rights challenges its population faces.

Family Planning CEO Jackie maintains the challenge for not-for-profits is that government and public funders think NGOs should be self-sustaining social enterprises – but the pressure of having to run a fully-fledged business and a charity is to dilute the capacity of both, particularly when the core mission is incredibly difficult in itself (e.g. raising reproductive health and LGBTQ issues in heavily religious countries). What NGOs can do, however, is look at the services they provide and how can generate revenue, as well as seek out ways to work with others. This, Jackie says, is the attitude adjustment to 'not for loss' over not-for-profit.

¹ The Todd Foundation, [Social Enterprise & Social Finance in Aotearoa New Zealand](#)

² Louise Aitken, *What can NGOs and social enterprises learn from each other?*

³ Michelia Trade Aid, *What can NGOs and social enterprises learn from each other?*

⁴ Kristie Wang, 2016. ['This Young African Social Entrepreneur Is Taking Her Social Business to the Next Level'](#), Medium