

November 17, 2005

Hatching eggs:

An NGO helps other NGOs find profitmaking avenues to fund their activities

By Judit Zegnál

[Budapest, November 17, 2005] Serving both the business community and civil society organizations, Budapest-based international NGO NESsT specializes in matching investment tools with the entrepreneurial activities of nonprofit organizations in an innovative way.

“With traditional sources of philanthropic monies gradually drying up in Central Europe, local NGOs need to become more self-sustaining through the development of profitable entrepreneurial activities, and being able to use the revenue to carry out intended missions. What we do is inject some of our for-profit thinking, experience and capital into a group of selected start-up or expanding ventures,” says Éva Varga, enterprise development manager of NESsT, which stands for Nonprofit Enterprise and Self-sustainability Team.

“At the same time, we try to get additional financing for the entrepreneurial activities of NGOs by offering businesspeople who wish to aid the civil sector a new, carefully targeted way of being philanthropic – an approach dubbed ‘venture philanthropy’ – which is very similar to for-profit venture capital investing,” she added.

Under the venture philanthropy concept, investors scrutinize the business plans of non-profit groups under consideration for funding; after investors have earmarked an organization as part of their investment portfolio, they continue to monitor the organization and help it to generate more income. In the end, the real return on investment is a positive social impact – not a strictly financial one.

“There is growing interest in venture philanthro-

py within the international business community, because it gives donors an opportunity to be personally involved with their selected charitable causes. In addition to granting financial support, engaged philanthropists make their professional skills and network of contacts available to grantees,” Varga said.

Operating in Hungary, the Czech Republic, Slovakia and Croatia, NESsT currently has seven organizations in its “Venture Fund” portfolio, and works together with more than 40 business advisers, some of whom are also donors from Central Europe.

Making use of experience gained in Central Europe over the past few years, NESsT has also set

up a venture philanthropy network in Latin America (administered from Chile), and is in the process of setting up a network in the United States.

According to its annual report, since 2000, NESsT has brought in more than \$2.2 million from donors and from its own entrepreneurial activities. Over the same period, the NESsT Venture Fund has provided financing and capacity-building services to over 30 civil society organizations from 30 countries, helping them to plan and start up enterprises, which in turn has allowed such organizations to increase their

institutional capacity, diversify their funding base, and broaden their impact for social change.

NESsT also has companies among its international business partners. One of them is New York-based Citigroup, which has commissioned NESsT to put together an information brochure explaining the venture philanthropy concept, which the firm intends to give to its wealthy clients seeking

Since 2000...the NESsT Venture Fund has provided financing and capacity-building services to...civil society organizations from 30 countries, helping them to plan and start up enterprises, which in turn has allowed such organizations to increase their institutional capacity, diversify their funding base, and broaden their impact for social change.

new and efficient ways of being charitable.

“In line with what we advocate to civil society organizations, we also aim to recover more than 30% of our organizational budget from our own revenue, which we get from selling our expertise to clients who can afford to pay for it, such as the World Bank, City Group and the Soros Foundation,” Varga said.

Within Central Europe, NESsT currently has four Hungarian organizations in its venture fund portfolio.

One is the Open Garden Foundation, which has built up a direct supply network between organic food producers and potential local consumers in and around Gödöllo and Budapest.

“The idea behind their operation is to develop sustainable and cost-efficient local supply chains, which go directly from producers to consumers,” Varga explained. “The other goal of the organization is to increase awareness of the advantages of organic food, which they try to enhance by cultivating samples from their own garden in Gödöllo, which is open to the general public,” she added.

The sample garden, in fact, was the inspiration for the idea to start a business venture.

“The people behind the foundation decided to sell the garden products to people who want to consume organic food,” Varga said. “By now, the foundation’s food venture covers approximately 60% of its operating expenses.”

According to Varga, the Open Garden Foundation is a prime example of the kind of situation in which most Central European civil society organizations find themselves.

“In the early ’90s, several large international civil organizations were channeling large sums of money into the region in order to facilitate the birth of local civil sectors,” Varga explained. “By the late ’90s, however, most of them started to pull back from the region; and since then, young local organizations have been faced with a financing vacuum.”

For its part, the Open Garden Foundation decided

to fill the financing gap by launching an organic food delivery service, which they call Real Food Box.

So far, NESsT has invested \$30,000 into this business by way of financial support.

“As a means of using available funding resources more efficiently, NESsT can make a one-time maximum investment of \$10,000 into a social venture, which may be repeated twice more in later phases if the venture is performing according to expectations,” Varga explained.

NESsT’s funding principles involve a very critical initial screening of the organizations’ business and

Under the venture philanthropy concept, investors scrutinize the business plans of non-profit groups under consideration for funding; after investors have earmarked an organization as part of their investment portfolio, they continue to monitor the organization and help it to generate more income. In the end, the real return on investment is a positive social impact – not a strictly financial one.

social capacity. This is followed by a feasibility study and business planning phase. If an organization puts together a convincing business plan, a multi-year cooperation begins with NESsT, involving co-financing by the organizations themselves, as well as regular performance evaluations. These evaluations are carried out in accordance with a set of criteria to be determined together by an investment committee comprising members of the organizations, NESsT experts, and private and institutional investors.

“We carefully examine applications for assistance in order to be able to focus our limited resources in the most efficient way,” Varga said, adding that out of the 415 organizations that have applied for assistance from NESsT, only seven have earned their way into the venture grants portfolio.

According to NESsT’s annual report, the organization’s capacity-building portfolio, which offers consulting on enterprise development and performance management, as well as access to a business advisory network, includes more than 1,200 organizations worldwide.