



All You Need To Know About Entrepreneurial Activities of CSOs

TOOLKIT

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About the Toolkit

The present Toolkit aims to show the spectrum of opportunities that opened with the adoption of the new Law on Public Organizations and allows public organizations to engage in entrepreneurial activities. Its objective is to support public organizations to exploit this new area of potential activities and a new source of income. The material is based on the acting legislation in Armenia and provides its interpretation in simple and understandable language. It also presents practical advice and examples from countries with similar background. While it refers to public organizations, it can be helpful for other nonprofit legal entities as it provides the broader framework and requirements for entrepreneurial activities and interesting practices and examples.

The Toolkit presents:

- Some benefits in engaging in entrepreneurial activities;
- Detailed explanation of what is considered entrepreneurial activity and the possible forms under which you can engage in it;
- The legal requirements to engage in entrepreneurial activity;
- The types of entrepreneurial activities CSOs can engage in;
- The rules on taxation of entrepreneurial activities;
- The reporting and other requirements;
- Practical advice on how to start entrepreneurial activity;
- Examples from Armenia and other countries of organizations that engage in such activity.

The Toolkit was developed by the European Center for Not-for-Profit Law (*ECNL*) and Transparency International Anti-Corruption Center (*TIAC Armenia*).¹

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Introduction

The new Law of the Republic of Armenia on Public Organizations HO-22-N came into force on 4 February 2017 and for the first time allows public organizations to directly engage in entrepreneurial activities. This has been the result of many years of campaigns and discussions. The possibility for public organizations to engage in entrepreneurial activities is in line with international standards according to which CSOs shall have the possibility to engage in any lawful activities. It also eliminated the discriminatory treatment of public organizations which has existed in Armenia for years (e.g. creative associations who could lease out their premises and generate income). Until 2017 only foundations were allowed to carry out such activities directly in accordance with their respective legislation

Nevertheless, the law still sets certain limitations on entrepreneurial activities. Specifically, it is prohibited for public organizations to engage volunteers to fulfil such activities. This may be attributed to the government's concerns that allowing public organizations to engage in entrepreneurial activities may create unfair competition to companies. But after the first step is made, it is up to CSOs to show the positive effect of this new possibility on each organization and civil society at large.

With the adoption of the new Law on Public Organizations there is no legal barrier anymore for public organizations to engage directly in entrepreneurial activities. International experiences show that the income from entrepreneurial activities is one of the most important sources of income for CSOs worldwide. According to the 2013 Johns Hopkins University study conducted in 12 countries², the income from sales and property income (generally referred as fees or income from entrepreneurial activities) constitutes 43% of the overall income of the CSO sector. This confirms previous data from the 2004 Johns Hopkins University research of 34 countries³, according to which fees for services is the largest source of income for CSOs.

- **Possible benefits of carrying out entrepreneurial activities.**

There are many benefits and positive effect of engaging in entrepreneurial activities, including, for example, the following:

- This is an independent source of income. It does not depend on someone else's decision whether the organization will receive the funding or not (e.g. a grants committee or an evaluator).

² http://ccss.jhu.edu/wp-content/uploads/downloads/2013/04/JHU_Global-Civil-Society-Volunteering_FINAL_3.2013.pdf

³ http://ccss.jhu.edu/wp-content/uploads/downloads/2013/02/Comparative-data-Tables_2004_FORMATTED_2.2013.pdf



- It helps organizations to cover some costs that would otherwise need to be covered through donations or grants.
- Many programs require own cost share or co-financing. Entrepreneurial activity may serve as a possible source for securing such financial contribution.
- The profit could be used to create financial reserves for the organization which could be used in case of interruption of project funding or any other financial risk;
- It develops a more entrepreneurial culture in the organization's efforts to solve social problems.
- It helps the organization to open itself to new and external audiences – their potential clients.
- It helps to identify more sustainable ways to solve important social problems.

- **How entrepreneurial activities fit with the mission of the organization?**

There have been claims that engagement in entrepreneurial activities may drift the organization's focus from its main goal. However, we would challenge this perception. Even without engaging in entrepreneurial activity, the organization may drift away from its mission. For example, there have been cases when organizations that were created to pursue a specific objective ended up working in a completely different area or slowly enlarged their portfolio of projects to cover many unrelated areas simply chasing available funding opportunities.

Entrepreneurial activities could be seen from two perspectives:

- *As another activity that contributes to achieving the organizational mission.* For example, if the mission of the organization is to support research and science, to organize a scientific conference with participation fees is just another activity to help achieve your mission. It just has also a side effect – it helps get additional funds.
- *As another source of income.* In this sense it is the same as any other fundraising effort such as collecting donations that helps collect funds to be spent on the mission-related activities of the organization.

There are numerous examples how entrepreneurial activities can be related to the organizations' mission, including the following real-life examples:

1. An organization helping individuals with mental disabilities involves their clients in work therapy – growing vegetables. Later the vegetables are sold and the income is used to cover the costs of the program. At the same time, the individuals with mental disabilities receive practical work experience.
2. An organization supporting elderly people starts a paid service – home care for elderly people that live alone. In this way they help elderly people that need help but also ensure they may use the funding to cover the cost of the service for other social programs or elderly people that cannot afford to pay the fee.



3. An organization supporting young people after they leave orphanages engages them in the production of soaps. This helps build their work habits but also brings income to the organization from the sale of the soaps.
4. An environmental organization protecting nature manages a nature reserve. It organizes there paid events with children who take part in bird watching, etc. In this way they teach children how important the environment is but also get funding to help maintain their environmental protection activities in the nature reserve.

What is entrepreneurial activity

- **How is entrepreneurial activity defined?**

The basic definition of entrepreneurial activity includes the sale of goods or services for a certain price. There is usually an additional element – that the price is market-based. This would exclude transactions such as charitable auctions/sales where the value of what is sold is usually much lower than the price received because the main reason for the buyer to give the money is that it will be used for charitable purposes.

According to Armenian legislation (article 2 of the Civil Code) entrepreneurial activity is “independent activity by a person, conducted at its own risk pursuing as a basic purpose the extraction of profit from the use of property, sale of goods, doing work, or rendering of services.”

- **How can we differentiate between nonprofit and entrepreneurial activities?**

There are certain types of income which are traditionally considered nonprofit. These include the receipt of donations, grants and membership fees. Service contracts (in which you provide a service against a payment), even if the funding comes from a donor, are considered entrepreneurial activities.

In the case of some donations or even grants, the recipient (grantee, donee) may be required to mention the name of the donor when the money is spent. In such cases what is received (the grant or donation amount) is much higher in value than the obligation undertaken (to note who provided the money). This is clearly not entrepreneurial activity. On the other hand, the same case (promoting someone’s name in return for money received) may also turn out to be an advertising contract which might be treated as entrepreneurial activity.

The fact that your expenditure is greater than your income does not make an activity nonprofit. Even if you sell an object at a loss, this may still be considered entrepreneurial activity, albeit a losing entrepreneurial activity. So in a nutshell, every sale of a service or a good is typically entrepreneurial activity and only in some exceptional cases (e.g. sale of a donated good or a charitable auction), a sale would be a nonprofit activity.



- **Are services for members of the public organization considered entrepreneurial activity?**

Each membership organization provides specific rights to its members. That is why membership fee is not considered an income from entrepreneurial activity. However, if the membership rights (or the services a member receives) become too linked to the payment of higher fees, that may be treated as tax evasion or attempting to disguise entrepreneurial activity. For example, if the members of a sports association pay membership fee based on the number of occasions they use the gym operated by the association it may be considered as hidden entrepreneurial activity. But if all members have certain number of free visits to the gym, that may be part of the usual membership benefits (as long as they also have voting rights in the Meeting of members).

- **Which laws are applicable to CSOs that carry out entrepreneurial activities?**

In addition to the Law on Public Organizations, there are several other laws that apply to organizations engaged in entrepreneurial activities, including tax laws, law on accounting, as well as the law regulating reporting/statistics. Depending on the type of entrepreneurial activity in which the organization is engaged, there may be other laws that regulate that specific area and needs to be considered e.g. if the organization wants to provide services for children, a license might be required. Below is a list of other laws that may also be applicable:

1. Tax Code,
2. Customs code
3. Law on Licensing
4. Law on State Dues
5. Law on Accounting
6. Law on Cash Transactions (according to the law on cash transactions cash payments are allowed but there should be some thresholds).

- **What are the possible forms to carry out entrepreneurial activities and which of them are most appropriate for CSOs?**

The new Law allows both direct entrepreneurial activity (carried out directly by the organization without the need to establish a separate legal entity) and indirect entrepreneurial activity (by establishing a commercial company or owning shares in such).

In the case of **direct entrepreneurial activity**, the organization sells goods and services in its own name. The responsibility for carrying out the activities rests with the organization. The employees that carry out the entrepreneurial activities are employees of the organization, any loans taken should be repaid by the organization itself and any profit



benefits the organization. In this case, the organization saves on any additional costs related to establishing a separate legal entity.

In the case of **indirect entrepreneurial activities**, there are two possible options:

- To establish a separate entity that is 100 % owned by the public organization;
- To own shares in a company or to establish a separate entity together with partners (which may be both other non-profit organizations or companies or even individuals).

Public organizations may establish or become members of the following types of commercial organizations prescribed by the Civil Code:

1. Limited partnership
2. General partnership
3. Limited liability company
4. Additional liability company
5. Joint stock company
6. Cooperative

In case of a joint venture with other partners, it is important to make sure that the public organization does not have unlimited liability. In addition, it is important that the organization retains some form of control over the decisions on the strategic directions of the business in order to ensure that it has some oversight in what the company is doing. This is important especially because companies tend to be guided primarily by the potential for profit and the organization may end up engaged in a company carrying out activities with which it does not want to associate itself (e.g., a company selling tobacco/cigarettes owned by an organization promoting healthy way of life).

- **What are the pluses and minuses in establishing a separate commercial company?**

Separating the entrepreneurial activities in a commercial company has some benefits:

- The organization will be liable for any debts or obligations up to its share in the capital;
- The company will focus on the commercial activity and on ensuring there is profit from it;
- It is easy in terms of accounting as incomes and expenditures don't need to be separated;
- The company may have access to a larger pool of funding – bank loans, potential investors.

There are, however, some negative sides, too:

- There may be additional costs in running a separate company;
- It may be more difficult to align the commercial activities with the non-profit activities and the mission of the organization;



- It may omit the positive effect of developing an entrepreneurial culture within the organization itself.

CSOs usually establish separate commercial companies when they want to clearly separate the nonprofit from the entrepreneurial activities. In some cases there may be legal limitations for a CSO to carry out specific activities directly so a commercial company is a logical choice. Sometimes the need to attract investments (including venture capital) mandates the need to have a separate commercial legal entity in which the potential investors can own shares.

Legal Requirements related to CSO entrepreneurial activity

- **What are the conditions to conduct entrepreneurial activity?**

Article 8 of the Law on Public Organizations regulates entrepreneurial activity:

1. *The organization shall have the right, in accordance with the objectives stipulated under its Charter, to conduct entrepreneurial activities and to this end dispose own property and results of the activities, as well to establish in statutory manner a commercial organization or to participate to the latter.*
2. *The Organization maintains a separate accounting for entrepreneurial activities and includes information about it in the reports as stipulated by the law.*
3. *The profit accrued from entrepreneurial activities of the Organization is used only to meet the goals of the Organization Charter.*

To conclude, the law requires that:

- The entrepreneurial activities are in accordance with the objectives of the public organization;
- The organization accounts the income and expenditures from the entrepreneurial activities and from nonprofit activities separately;
- The profit from the entrepreneurial activity may only be used to achieve the organization's statutory nonprofit (non-commercial) goals.

- **Shall the entrepreneurial activity be indicated in the organization's charter?**

The law requires public organizations to list the subject and objectives of the activity in their charters. This is a very broad requirement that could be interpreted as listing only the key activities and the nonprofit objectives. However, it may be a good idea to specifically list entrepreneurial activity as one of the activities of the organization, without necessarily listing the specific type of entrepreneurial activity that the organization will engage in. Organizations that want to limit the activities that they engage in, have no obstacles to also list the specific types of entrepreneurial activities. This, however, will mean that once listed in the Charter, these are the only entrepreneurial activities that the organization should engage in. So if there are changes in the types of entrepreneurial activities, those will also have to be added to the Charter.



- **Shall an organization be re-registered to become eligible to engage in entrepreneurial activities?**

There is no need to re-register an organization in order to start engaging in entrepreneurial activities. There may be a need to change the Charter of the organization in case it prohibits the engagement in such activity or if the organization decides to revise and expand their goals and objectives.

- **What are the differences, if any, between entrepreneurial activities of public organisations, foundations, and charitable organisations?**

The Law on foundations⁴ allows them to engage directly in entrepreneurial activities but puts one clear limitation (which does not exist for public organizations) - the activities must be listed in the Charter of the foundation. Therefore the regulation for foundations is currently stricter than for public organizations.

With regard to the charitable organizations, they are not a separate legal entity form. They are existing legal entities - e.g. public unions, foundations, as well as other forms envisaged by the law- that receive a special status and become "charitable". The Law on Charity⁵ does not set any special provisions on entrepreneurial activities as it only regulates specific characteristics related to the charitable activities. Therefore, the rules of the respective legal entity form on entrepreneurial activities apply. However, there are specific requirements for charitable organizations, including the requirement that only 20% of the income (except for donations done for specific purpose) gained during the year can be used for staff remuneration and administrative expenses. In addition, the allowed expenses for charitable organizations are for charitable programs, for activities of volunteers and for management overheads. The last category (management overheads) refers to "*remuneration of staff participating in implementation of the charitable programs; expenses associated with providing necessary material and technical resources to charitable organizations; travel allowances; funds spent for publishing information and reports regarding the activities of the charitable organization*" (art. 14 of the Law on Charity). Out of this list the only type of expense that could probably support entrepreneurial activity is *expenses associated with providing necessary material and technical resources to charitable organizations*.

- **How can the CSO staff be involved in the entrepreneurial activities? Are there any restrictions?**

There is no limitation on the use of staff in entrepreneurial activity. It is within the competence of the management to organize the activity of the organization and its employees.

⁴ Law of the Republic of Armenia on Foundations, http://www.parliament.am/law_docs/310103HO516eng.pdf

⁵ <http://parliament.am/legislation.php?sel=show&ID=1332&lang=arm&enc=utf8>



- **Who is responsible for the entrepreneurial activity within the CSO?**

According to the law, “all issues related to management of routine activities of the Organization” are within the powers of the executive body. It also “enters into deals on behalf of the Organization” and “approves internal documents regulating activities of the Organization”. This all happens under the overall supervision of the supreme organizational body which has the power to make a decision on any issue.

In addition, the entrepreneurial activity, as with all other activities, is subject to the control of the oversight body, in case such a body is created. The oversight body can check the “financial-economic activities” of the organization and “demand and receive information regarding the organization’s activities”.

- **Can the volunteers of CSOs be involved in entrepreneurial activities?**

No. There is express prohibition to involve the volunteers of public organizations in entrepreneurial activities.

- **Is it necessary to have separate accountant and/or accounting system? How should it work?**

The law requires that nonprofit and entrepreneurial activities are accounted separately. It means that the incomes and expenditures for the two activities need to be separated so every expense related to the entrepreneurial activity is deducted from the income from entrepreneurial activity. Similar rules apply for the nonprofit activity.

For example, if you have an income from sale of books (entrepreneurial activity) of \$1,000 and at the same time you have to organize a social program for children costing \$1,000 (nonprofit activity), that does not mean that your result is zero. It means that you have \$1,000 profit from entrepreneurial activity (on which you have to pay a profits tax) and your nonprofit activity is at a loss of \$1,000. Only after you pay the tax, you may be able to use the profit from economic activity to cover the costs of the nonprofit activity.

- **How do you account common expenses (for both entrepreneurial and nonprofit activities)?**

An example for a common expense might be the rent of the office where both entrepreneurial and nonprofit activity is carried out. Or the salary of a person that is engaged in both activities. In such cases, the best approach is to try to separate these expenses through some logical mechanism e.g. the employee spends half of his/her time on entrepreneurial activity so half of his/her salary is accounted as expense for the entrepreneurial activity (as the law requires entrepreneurial and nonprofit activity to be accounted separately).



In case it is difficult to separate the expense in such a way, it may be good to use some general standard e.g. try to separate the expenses in the same ratio as the ratio between the incomes from the two activities (if the income from entrepreneurial activities is 10 % of the overall income of the organization, then the ratio for the inseparable expenses is also 10 %).

- **How can we use the profit from entrepreneurial activities?**

The organization has to pay taxes on its profit. In case the entrepreneurial activity has been carried out directly by the public organization, it is free to use the after-tax profit, as long as it is not distributed among the members, managers, etc. The profit has to be used, however, only to accomplish the goals of the organization, as described by the Charter.

But the organization itself and its management bodies have the freedom to decide in what types of programs to invest the funds. They can use the profit to finance the expenses of an existing program or decide to launch a new social program. They can also decide to set aside the profit as a reserve for the organization.

- **Can CSOs use nonprofit income to support its entrepreneurial activity or vice versa?**

According to the law, the Charter of the organization has to contain provisions on the "procedure of disposition and management of the property". There are no other limitations which means that it may be possible to use funds from the nonprofit activity to support the entrepreneurial activity and vice versa.

There is, however, a key premise on which CSO entrepreneurial activity is based. The aim of the entrepreneurial activity should be to support the mission of the organization. So an entrepreneurial activity which constantly requires subsidies from the nonprofit activity of the organization is contrary to the very reason for starting it. That is why any transfer of funds from the nonprofit income of the public organization to its entrepreneurial activities should be targeted and well-planned (e.g. it should be an investment expected to bring future income or give a starting push for a new venture, expected to be repaid in the future).

Types of entrepreneurial activities

- **What are the typical types of entrepreneurial activities that CSOs conduct based on comparative practices?**

Many CSOs often lament – we do not have the necessary knowledge and skills to engage in entrepreneurial activities. If we had the skills, we would be in the business sector. However, this is a poor excuse as skills could be trained and knowledge could be acquired. What is important for entrepreneurship is for you to be ready to test new ideas/approaches.



Currently there is a rise of the popularity of social entrepreneurship. This term combines 2 elements – a social problem (a problem affecting vulnerable groups or other important societal issue) with a business approach (there should be some form of income generation other than project funding or donations). While people may think that business people with sensitivity for social problems might be the best to start a social enterprise, CSO representatives that become more open to business approaches could also be successful social entrepreneurs.

There are examples of numerous CSOs that have started their own businesses or that have engaged in additional entrepreneurial activities. The most typical examples include:

- The sale of souvenirs produced by the organization (e.g. postcards prepared by children);
- Paid trainings on topics related to the organization's mission;
- Rent of the organization's premises (e.g. renting the conference room for meetings and trainings of other organizations);
- Paid expertise, provided by the organization's experts (e.g. environmental study, legal analysis, etc.);
- Provision of paid social services (e.g. assisting lonely elderly people in their homes);
- Daycare centers for children; etc.

- **Are there areas or activities that are prohibited for CSOs to engage in?**

There are no activities in which CSOs cannot be engaged according to the Armenian legislation.

- **What are the procedural steps a public organization needs to take in order to start entrepreneurial activity?**

There is no need to declare about the start of direct business activity. There is neither a need for the CSO to register the address of its business or get a special tax number. However, if the CSO is not directly engaged in an entrepreneurial activity, it should register a company in the State register of Legal persons and take a separate tax number for it.

Also, there is no requirement to get an approval for the activity, unless it is an activity subject to licensing.

Taxation of the CSO entrepreneurial activity

- **Is there tax on the income/profit from the entrepreneurial activity of CSOs?**

The CSO entrepreneurial activity is taxed in the same way as the entrepreneurial activity of companies so there are no tax benefits.



- **What are the most common taxes paid by CSOs engaged in entrepreneurial activities?**

Here we provide the taxes that are usually levied on entrepreneurial activity. There may be other taxes depending on the specific type of activity that the CSO carries out.

Profit tax – this is the tax paid on the profit from entrepreneurial activities. It is levied on the positive financial result (the difference between incomes and expenditures). This means that if the entrepreneurial activity does not bring a profit, there is no tax.

Value added tax – This is a tax paid by all final consumers. CSOs are also paying VAT, unless they are registered and themselves charge VAT to their customers/clients.

- **Is there a difference in the tax treatment if we establish a commercial company or engage directly in entrepreneurial activity through the CSO?**

There is no difference in terms of taxation between establishing a separate commercial company or engaging in the entrepreneurial activity directly.

Reporting and Other Requirements

- **Do CSOs need to file tax reports and what are the respective requirements?**

Possible reports include regular tax reports to tax authorities and reports on activities (including statistics) to the authorised body – State Revenue Commission - upon their demand.

- **Responsibilities and penalties for CSO managers for violations of the legal requirements.**

CSO managers are liable and could be imposed administrative sanctions for not submitting the tax reports and managers could face criminal sanctions for not paying taxes.

- **Types of documents that the CSO issues for economic activity payments.**

CSOs should issue invoices for all payments for services provided or goods sold. They may receive the payments both through bank transfers and in cash. In case they receive cash payments, they need to have a cash register and declare it with tax authorities.

- **What happens to entrepreneurial activities and related property in case of CSO dissolution?**



In case of dissolution of a CSO, the founders or the body authorized to take the decision on liquidation notifies the registration authority (Art. 68 of the Civil Code). They have to also appoint a liquidation commission to which all management powers are transferred. Its main task is to identify any creditors and satisfy their claims. The claims are satisfied first by the monetary assets and only if they are insufficient, the liquidation commission shall sell the property of the CSO at a public auction. Such property may include also any shares or ownership in commercial companies (in case the entrepreneurial activity is carried out indirectly). In case those are sold, the buyer may continue the entrepreneurial activity but this is no longer related to the CSO.

In case the entrepreneurial activity is carried out directly, it ceases after the decision on dissolution is taken and all monetary or other assets accumulated through it, are considered assets of the CSO and are used to satisfy the creditors.

According to the Law on public organizations, *"after satisfying the claims of creditors, the remaining property is being aimed to the objectives stipulated by the Charter of the Organization, while if it is impossible then the property is being transferred to state budget"* (Art. 32.4 of the Law on Public Organizations). As the Meeting of the organization is the body that may decide on the dissolution, it is also the body that may also decide on how the property remaining after satisfying the claims of the creditors may be used.



Practical advice on how to start entrepreneurial activities

This part aims to give some basic tools and ideas for CSOs that are considering to start entrepreneurial activities. It does not provide an exhaustive list of steps to take or things to do but instead aims to help your thinking when considering if entrepreneurial activity is an option for your organization.

A. *Are you ready to start?*

One of the main problem for CSOs to engage in entrepreneurial activity is a common perception– we are nonprofits so we should not engage in for-profit activity. Many of the CSO employees or leaders think that engaging in entrepreneurial activity is contrary to their mission or will just distract human and other resources from focusing 100% on achieving their nonprofit objectives. Hence the first step is to **assess the readiness of the organization** to engage in entrepreneurial activities. There are several questions you need to ask:

- Is the Board open to such an effort?
- Are employees or members supportive?
- Is there a general understanding that such an activity will be in line with the mission?

B. *What are your strengths?*

This is quite similar to a SWOT analysis where you need to evaluate your strengths. CSOs have a number of special advantages that sometimes they are not even aware of. You need to consider:

- The people that work for you and their skills and knowledge;
- What you own or can use, for example your own building or rented office, funds that you have accumulated, and so on;
- The reputation your organization has;
- The experience you have (activities carried out, understanding of specific target groups, etc.);
- The contacts you have; the outreach of the organization through your networks of members, volunteers, beneficiaries etc.

C. *What are the needs and market opportunities?*

CSOs best know the needs of the people they serve. Try to identify the existing specific needs. What problems need to be solved? Are people ready to pay to help them solve their problems?



D. *Match your advantages with the needs and market opportunities*

Which of the existing needs you can satisfy with your existing capacities? Is there an opportunity to sell something that you possess or could produce? You can make a list of all possibilities and then choose the ideas with the biggest potential or those that fit best to your organization's profile.

E. *Planning*

After you selected your ideas, start the real planning. You need a business plan – how are you going to produce what you want to sell; what are your potential clients; how are you going to reach them; what are your costs and expected incomes, etc. Online tools such as the Canvas business model⁶ and the Value proposition model⁷ can be helpful in developing your business idea.

The place to start when making the business plan is to **decide what you want to produce and what needs will it satisfy**. You need to think why people would buy your product and what makes it different from similar products that already exist in the market. You need to clearly think what is the market you are entering – who are your potential competitors, are there other products that satisfy the need that you want to address (e.g. if people are thirsty and you want to produce water, in addition to all the water-producing companies, you will also face the competition of natural juices, sodas, etc.).

There are two sides of the business model:

- a. How are you going to produce what you want to sell – who are your suppliers, who are your key partners, how much will your product cost.
- b. Who is your client, how are you going to reach him/her (communication), how are you going to deliver your product (logistics) and how much money can you make.

F. *Test your market*

Once you have identified your clients and you have decided what you will be selling and how you will produce it, please, test your idea in reality. Prepare a questionnaire and go to your clients to see if your basic premises are true, are they really willing to buy your product, what is the price they are ready to pay?

Try to identify the people that are already engaged in what you want to do in order to see how they do things, what makes them successful (or try to find out what are the reasons they have failed). Any information you can collect in advance, will help you save money and have more chances for success.

⁶ <https://strategyzer.com/canvas/business-model-canvas>

⁷ <https://strategyzer.com/canvas/value-proposition-canvas>



G. *Decide on the legal and organizational matters*

We have provided in the previous parts of the Toolkit a list of important questions related to the legal and tax issues affecting the CSO entrepreneurial activity. We recommend that you review them carefully. You also need to research if there are any specific requirements for the services/products you want to sell. For example, some activities may require a license or a special permit.

Decide whether you want to establish a separate legal entity or start the activity within the CSO. If you are going to carry the entrepreneurial activity directly, ensure your accounting can track the incomes and expenses related to it so that they are separated from the nonprofit activity.

Consider if there are any decisions or documents that your Board needs to approve. For some activities there is a requirement to adopt internal procedures or other internal documents. In case a change of your Charter is needed, make sure you follow the procedures the organization has established for such amendment.

Decide who will be responsible for carrying out and monitoring the entrepreneurial activity. This person should track whether your income covers your expenditures; whether all your clients pay for the services/products they have received; whether you produce on time what you have promised; is your capacity sufficient to satisfy the demand, etc.

H. *Some additional ideas*

CSOs may not always have the necessary business skills. But they have a very important advantage – their mission. This can help them attract various supporters, including from the business sector. Such experienced people could serve as **mentors and volunteers in developing and then implementing your entrepreneurial idea**. Identify business people that can give you advice (based on their own experience) or provide any other assistance. Go to your colleagues from CSOs that are already engaged in entrepreneurial activity and ask them what are the problems they face and any advice they can provide you with.

CSOs very often think that their only advantage when selling something is the fact that they can produce cheaper products (e.g. because they use volunteers or they can co-fund their expenses from project funds). But the aim should be not to produce cheaper product but **to produce high-quality product** that also has an added value (it supports the organization's mission). Aiming to fight the competition with cheaper prices may be a problem because:

- CSOs usually cannot produce sufficiently big quantity to make up for the low price in order to be competitive in the long run;
- Someone else may provide an even lower price and drive us out of business;
- Sometimes people associate low price with low quality.



First test and then invest. If you have a big idea that needs a lot of money to start, try to first see if there is sufficient market for it, before spending a lot of money. For example, do you need to buy a machine (that you will use in your production) or you can rent it first? Can you start your idea in stages or divide it into separate smaller parts? So that you only start stage 2 if stage 1 was successful. Sometimes it turns out that organizations do not need big investments to start entrepreneurial activities because they already have the necessary skills or assets.

Prepare realistic financial forecasts. Prepare your cash flow table and ensure that **your income will be sufficient to cover your expenses every month**. CSOs have an optimistic view about things in life which is often transformed into optimistic financial forecasts. It is typical when you look at CSO cash-flows to see that the income doubles or even triples in just a few months' time. In financial matters, it is better to be more conservative. Be ready for the worst-case scenario in terms of sales so that you are not surprised.



Examples from Armenia and other countries of organizations that engage in such activity

Here we provide real-life examples of CSOs engaged in commercial activities in Armenia and other countries. Their aim is to serve as inspiration for CSOs in Armenia that are thinking about engaging in entrepreneurial activities. They also aim to show the breadth of possibilities that entrepreneurial activities provide and how such activities nicely fit into the organizations' missions.

Bulgarian Center for Not-for-Profit Law (Bulgaria)

The Bulgarian Center for Not-for-Profit Law (BCNL) is a public benefit foundation whose mission is to support the creation of an enabling environment for civil society organizations in Bulgaria. Among its objectives is to support CSOs and help build their skills and capacity.

BCNL operates the NGO House – **a co-working space for civil society organizations**. The organization decided to start it based on discussions with CSOs about their needs and the lack of a similar service for CSOs in Bulgaria. At the same time, co-working spaces have become increasingly popular. In order to start it, BCNL studied similar services for businesses and developed its own business plan.

The NGO House is a separate commercial company, established and 100 % owned by BCNL. Its business model is to rent an office space in the center of Sofia and sublease it out to CSOs. There are both separate offices and a co-working area that organizations can use. In addition, the NGO House offers event space for working groups, meetings and other events. The initial investment for renovating the place and starting the enterprise was financed from BCNL's own reserves.

The NGO House aims to bring together CSOs and create a community. This helps CSOs to start joint initiatives. In addition, BCNL provides support and free consultations to all organizations in the House.

The NGO House opened in December 2015. Currently more than 15 organizations use the NGO House and more than 10 others have used it since its opening. The organizations include CSO umbrella organizations, organizations working in the social area, promoting volunteerism, protecting human rights, fighting against bureaucracy, engaging in healthy life, etc. There are regular opportunities for the organizations to share and discuss their initiatives with other organizations. The NGO House has also facilitated many joint initiatives among the participating organizations. For example, the NGO House has hired two people with intellectual disabilities for cleaning that are supported by one of the other inhabitants – Maria's World Foundation.



In terms of finances, in early 2017 the income from renting offices has started to cover most of the basic expenses for running the NGO House, except for the salary of the manager of the House who is still covered with project funds. BCNL considers reaching the breakeven point (income covers basic expenses) as an important achievement for the NGO House.⁸

Maria's World Foundation (Bulgaria)

Maria's World Foundation (Bulgaria) is established in 2012. Its mission is to improve the quality of life of people with intellectual disabilities and their families and to support their self-realization through quality services, education and supportive work therapy. The foundation operates a daycare center for people with intellectual disabilities.

Maria's World decided to start providing **catering services for various meetings, events and parties** in 2015. They were a natural continuation of the cafeteria that they opened in 2014 where people with intellectual disabilities are involved in preparing food and serving it. The entrepreneurial activity gives these people work experience and helps develop valuable life skills.

People with intellectual disabilities take active part in preparing the catering menus and servicing the events where catering takes place. They are under the oversight of a cook/work therapist. The foundation has trained these people to prepare clearly set assortment of food and drinks and to also take part in the events themselves. They currently can organize events for up to 50 people but they want to increase their capacity and provide catering for bigger and more events.

For starting the activity, the foundation used own funds (generated from various projects). The funds were used for buying a car (to transport the food) and various catering inventory (glasses, etc.).

So far the income from the catering services is still insufficient to cover 100 % of the costs. So the entrepreneurial activity is supported with some project funding or incomes from the state-delegated social services that the foundation is providing. 5-7 people with intellectual disabilities are engaged in the entrepreneurial activity. This is a very good training for them. One of the people has already started working in a chocolate workshop.

One of the challenges is to provide services that are of equal or better quality than the ones provided by regular companies. The aim is to provide tasty food with a good vision. And if the activity cannot be profitable, then the objective is to not lose money on it.⁹

⁸ For more information: www.ngohouse.bg/en

⁹ For more information: <http://www.mariasworld.org/en/>



Concordia (Bulgaria)

Concordia (Bulgaria) is part of the international organization Concordia Social Projects that conducts activities in Romania, Moldova and Austria, too. In Bulgaria it started its operation in 2008 by managing the social and youth center St. Constantin which provides services to children and youth at risk. It has also developed several other social services for the same target groups.

In 2010 Concordia opened **a hairdresser's salon**. The purpose is to engage the youth from the social services of the foundation so that they can develop work habits and also obtain work experience in a protected work environment. The entrepreneurial activity is part of the foundation and is not a separate legal entity.

The young people receive an initial training and those who wish can find a job in the open market. The others can stay and work in the hairdresser's salon of Concordia.

The entrepreneurial activity is currently maintained by income from the activity itself and from project funding.

One of the challenges for the salon is the difficulty to maintain a master hairdresser that also has some pedagogical background. Another challenge is the fact that the activity is not profitable and the foundation has to support it with other income.¹⁰

Global Initiative in Psychiatry (Bulgaria)

Global Initiative in Psychiatry (Bulgaria) is registered as foundation in 2004. It works for reforming the mental health system and improving the life of people with mental health problems.

The foundation opened in 2007 a social enterprise – **the "Green" laundry service**. It provides laundry, drying and ironing of bed linen and table cloth. In the enterprise are engaged people with mental health problems. The income comes from public procurement and other clients. Currently the enterprise provides its services to several big corporate clients, a university, several kindergartens, etc.

The entrepreneurial activity is organized in a separate commercial company. The initial investment came from project funds and a corporate sponsor that provided a laundry machine.

The laundry service provides a chance for training of people with mental health problems that can afterwards be hired. In addition, the foundation also can help these people find a

¹⁰ For more information: <http://www.concordia.bg/nachalo/>



job in the open market. There are around 8 beneficiaries of the organization that are currently involved in the entrepreneurial activity. So far around 5 people have been further integrated in the free labor market.

One of the challenges is to keep competitive prices of this service even though the organization needs to invest more in training of its personnel (compared to other similar companies). In addition, the smaller capacity of the enterprise makes it possible to only engage in smaller orders for laundry services.

The Royal Society for the Protection of Birds (RSPB)

The Royal Society for the Protection of Birds (RSPB) is a charitable non-governmental organization registered in England and Wales and in Scotland. Their mission is protecting birds and their habitats, especially endangered species. RSPB has more than 1 million members, about 1300 employees and 13,000 volunteers working for them, making it the largest organization of its kind in Europe and one of the largest in the world.

RSPB runs an online shop¹¹ with a wide range of products not only related to bird protection (such as bird food, bird house, binoculars etc) but also different types of items for everyday use– house decorations, clothing, children toys or gardening accessories. RSPBs online shop is spending 90% of net income on conservation, public education and advocacy in the UK and around the world.

According to its 2016 annual report¹², the trading income (22.5 million £, around 29 million \$) represented 1/6th of the total income of RSPB (137.4 million £, around 177 million \$). The organization made 2.4 million £ (around 3 million \$) profit solely from this activity.

The bulk of the commercial trading income comes from mail order, retail and catering. Unlike many other charities, they do not sell donated products. Their trading strategy is built around developing a quality range of products that support their charitable aims and underpin their sustainable and ethical standards.

Every time people buy products from the website they are helping birds and wildlife. The threats to the natural world are far too big for any organization, but with the continued support of individuals, communities and members RSPB had the capability to achieve the winning outcomes that our wildlife greatly needs.

For example, the income from online shop has been used to restore the Lakenheath Fen Nature Reserve, which before 1995 was mostly carrot fields. They planted thousands of

¹¹ <http://shopping.rspb.org.uk/>

¹² https://ww2.rspb.org.uk/globalassets/downloads/documents/abouttherspb/annualreview_20156.pdf



reeds, creating a massive 200 hectares of wonderful wetland habitat, teeming with life. All kinds of wildlife are returning to this special place, including bitterns, bearded tits, reed warblers and marsh harriers. Besides the Lakenheath Fen, RSPB is also involved in different conservation projects, such as saving albatrosses in the South Atlantic, restoring grasslands in Wiltshire or re-wetting damaged peatlands in Belarus.

Wielka Orkiestra Świątecznej Pomocy (WOŚP)

Wielka Orkiestra Świątecznej Pomocy (WOŚP) is the biggest non-governmental, non-profit, charity organization in Poland. The main purpose of WOŚP is to save the lives and improve the health of sick people, especially children, and to promote healthy lifestyle and preventive treatments. They purchase medical equipment for hospitals across the country and conduct nationwide medical and educational programs. Each year millions of citizens are donating money to the events they organize. The main one - Finale of the Great Orchestra - consists of different concerts in almost every Polish city with musicians and celebrities, each year breaks the record of the amount of raised money.

WOŚP is the 100% owner of a separate commercial company called „Złoty Melon” which **operates an online shop with various gadgets**, such as t-shirts, sweaters or mugs with WOŚP logo, **organizes trainings on first aid and publishes albums and books**. The Company supports the Foundation in its activities, helps to optimize costs and gain additional revenues that are transferred to the Foundation in the form of dividends. Złoty Melon also provides services to sponsors and partners of the WOŚP (for example organizing trainings on first aid). These are mainly companies, thanks to which they can realize the two largest projects of the Foundation - the Finale of WOŚP (annual event taking place in all country followed by concerts in all cities and street fundraising), and the Woodstock Festival. The revenues associated with these activities are the largest part of the annual income of the Złoty Melon and the Foundation rely on them to implement projects, with significant cost reductions on the part of the Foundation itself.

Złoty Melon company donated approximately 3.1 million PLN (approx. 818,310\$) dividend to the Orchestra. This allowed to expand the WOŚP Voluntary Service Center in Szadowo-Młyn, where youth are trained on first aid. 9,000 people have already completed the courses.

Gaspar, Baltasar & Melchior Association (Romania)

The "Gaspar, Baltasar & Melchior" Association is an educational NGO with cultural aims, especially preserving cultural heritage in Romania. It operates since 2006 in a former pottery center, the Piscu village in Ilfov. The association **offers workshops in crafts making, including pottery, glass and painting for children**. The revenues from the workshops support the only public primary school in Piscu while preserving local cultural traditions.



The Piscu School was founded as a result of several projects run by the Gaspar, Baltasar & Melchior Association. It is a craft school, available for everyone who wishes to gain a glimpse into the riches of the Romanian cultural heritage and become acquainted with its values. It is their aim that the younger generations should become more aware of their cultural heritage and more attached to its beauty and its historical relevance. They hope to achieve this by organising workshops, summer schools, conferences, by publishing cultural heritage books for all ages, by running a heritage specialist primary school, by undertaking anthropological research and running an online cultural platform.

So far more than 4,000 people attended the workshops and already 17 schools in Brasov are using new heritage manual.¹³

CliniClowns Foundation (The Netherlands)

CliniClowns Foundation (The Netherlands) is an NGO working in the Netherlands since 1993 known by their main program in health care facilities, including visits by specially trained clowns. They entertain more than 90.000 sick and disabled children on an annual basis in order to help improve their quality of life. They are colloquially called "clown doctors" and their visits to hospitals have been shown to help in lifting patients moods with the positive power of hope and humor. There is also an associated positive benefit to the staff and families of patients.

CliniClowns operates an **online shop where everyone can buy different products** (such as baby clothing, toys, mugs etc) with CliniClowns logo. Also, one can book tickets to special shows conducted by CliniClowns and revenues coming from ticket sales go to the CliniClowns Foundation.

In 2016 the income from the different forms of fundraising (such as gifts in nature, donations from sponsors, money from events) were about 13 million€ (approx. 15 million \$), including nearly 100 thousand€ (approx. 117 thousand \$) revenues coming from conducting the online shop.¹⁴ Although the money coming from the online shop is not the main source of income for CliniClowns it also has advertising effects as it helps to popularize the organization amongst the society and reach more and more people every year. Revenues from the sales are being spend on trainings for the new clown doctors, organizing events (shows and displays for kids), and extending the impact of the organization. Efforts of operating the online shop combined with other fundraising activities makes it possible to reach the goals of the CliniClowns and help thousands of kids.

¹³ For more information about the school and the association see:
http://www.scoalaagatonia.piscu.ro/imagini/londra%201/flyer%20agatonia_mare.jpg and
<https://www.youtube.com/watch?v=C3x-EMnDQJA>.

¹⁴ The full financial report is available (only in Dutch) on the following website:
https://www.cliniclowns.nl/files/Jaarrekening_CliniClowns_2016.pdf



Media Initiative Center (Armenia)

Media Initiative Center (MIC) is an NGO working in Armenia since 1995.¹⁵ MIC promotes freedom of expression and open media. Towards this end, MIC organizes training courses for established and emerging journalists, promotes media literacy, advocates for improved media legislation and protects journalists' rights. It develops media production on human rights, European integration, civic conflict, migration, elections, national minorities, gender and many other issues for a wide range of target audiences. The organization is a founder and member of Internews International Association.

In 2004, MIC established an enterprise named Altera which **produces media products and media trainings for fee**. The revenues serve to various needs of the organization, including administrative costs and programmatic expenses. In 2016 the income from the enterprise was about 25 million AMD (approx. 52,000 \$), which provided about 6% of organization's income.

The main challenges of the enterprise are difficulties in market outreach. MIC personnel are primarily involved in enterprise operations, which limits the capacity to engage in large commercial projects due to the high workload. Besides, MIC does not put significant efforts to marketing of the enterprise's services, and serves a narrow niche of clientele. The main clients of the enterprise are international organizations and local CSOs which order trainings and media products in the framework of their projects. The organization representatives stress that they prefer to work with a "non-commercial mindset" which is both a limitation in terms of low profitability and limited market outreach, but also a strength as it makes Altera a unique enterprise with a social mission.

Martuni Women's Community Council (Armenia)

Martuni Women's Community Council (MWCC), established in 2000, is one of the leading NGOs in Gegharkunik marz of Armenia. It aims to facilitate the efficient solution of economic, social, and cultural problems in communities by stressing the importance of civic participation. The organization mainly operates in health, environment, social, and community development areas, provides trainings and development support to other local CSOs.

In 2014, MWCC established an enterprise "Ighdz", which **provides employment to people with disabilities**. The start-up capital of the enterprise was granted by the Livelihood Improvement through Fostered Employment (LIFE) for People with Disabilities Program implemented by Save the Children with financial support from the USAID. The enterprise produces sewing (knitted wear, bed linen, individual orders, embroidery) and color printing

¹⁵ Media Initiatives Center (MIC) was formerly called Internews Media Support NGO.



(business cards, booklets, posters, etc.). The primary mission of the enterprise is provision of employment opportunities, and the revenues exclusively cover the costs of the enterprise operations and limited investments toward the production development. Ten workers are involved in the enterprise operations on part- or full-time, as well as contractual basis. In 2016 the income from the enterprise was about 10 million AMD (approx. 21,000 \$).

The main challenges of the enterprise are financial constraints. Though the production is organized in the premises of MWCC and no rent costs are covered, the income of the enterprise is barely enough for covering taxes, salaries, and operational costs incurred. The MWCC representative highlights that it is difficult to operate with the same taxation principles as businesses. However, the enterprise produces competitive quality of products and has been able to stay in the market. The production of the enterprise is demanded by various local organizations, state structures, educational and cultural establishments. One of the challenges in sales, especially in the first period of enterprise operation, was the negative stereotype of citizens refusing to buy sewing products made by people with disability. However, this attitude is slowly changing due to public officials and organizations readily purchasing Ighdz's products.

Armenian Young Women's Association (Armenia)

Armenian Young Women's Association (AYWA) was founded in 2004 with a mission to lead social change and to achieve equality of opportunity and reward for Armenian women. One of AYWA's strategic goals is to strengthen the role of women in economic life. For this purpose, AYWA has initiated a range of projects aimed at developing business skills of women and promoting women and social entrepreneurship. In 2016 AYWA established NURIK Community and Tourism development center serving as a social enterprise in Akhtala, Lori region of Armenia. The aim of NURIK is to **promote social and economic development of Lori region and provide workplaces for women and people with disabilities**. NURIK has been established as a result of cooperation with Armenian representation of Save the Children International in the framework of the USAID-funded Livelihood Improvement through Fostered Employment (LIFE) for People with Disabilities Project. Other USAID-funded projects such as My Armenia and ARDI provided support to the enterprise in getting equipment and running its operations. **NURIK produces ecologically clean tea from the local herbs, wood souvenirs, food products, lavash**; in 2017, new directions of activities were added such as **carpet weaving, pottery, hiking and guiding tours, and cultural event organization**. As NURIK's services are primarily targeted at tourists, the center collaborates with tour agencies to attract tourist groups and bring them to Akhtala.

The location of NURIK is especially notable from ecological viewpoint. Akhtala, along with neighboring communities is located nearby the copper processing plant considered as a major source of income for local communities. Through offering entrepreneurship opportunities, NURIK serves as a model of green economy and demonstrates alternative



income sources. Currently, 10 people are employed in NURIK and more than 250 local households benefit from NURIK activities getting income from collecting tea herbs, selling food, and short-term work in the enterprise. Apart from contributing to the livelihood of local families, NURIK's revenues are channeled toward the development of the enterprise. In 2016 the income from the enterprise was about 5,7mln AMD (approx. 12000USD \$), which covered the salary of enterprise employees, operational expenses and part of the new equipment costs.

AYWA plans to enlarge the enterprise operations through launching a guesthouse and training center, and seeks investments for providing new services. The main challenge is difficulty to get grants or zero-interest loans; the enterprise is offered the same loan conditions as businesses while donors are hesitant to provide funding for enterprise development. Due to AYWA's efforts, NURIK has succeeded in marketing its tea products; however, professional marketing services are needed for other products and services while presently cannot be afforded by AYWA.