



EARNED INCOME, ENDURING IMPACT



**A REVIEW AND ANALYSIS OF EARNED INCOME OPTIONS
FOR AFRICAN CIVIL SOCIETY ORGANISATIONS WORKING IN
NATURAL RESOURCE MANAGEMENT & CONSERVATION**

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ABOUT MALIASILI

Maliasili is a U.S.-based non-profit organisation that supports the growth, development, and performance of leading civil society organisations and social enterprises working to advance sustainable natural resource management practices in Africa. Maliasili presently works with about 16 local partner organisations in eastern and southern Africa. By integrating long-term and adaptive organisational strengthening services with technical expertise, Maliasili is helping its partners achieve their full potential and scale up their impact – for people and nature.



ABOUT WELL GROUNDED

Well Grounded provides organisation development support to civil society groups in Africa so that they have real and sustainable impacts on natural resource governance and community rights. Well Grounded provides tailored support to each client organisation based on its particular needs and priorities. Well Grounded also promotes change by connecting organisations with each other to build a strong civil society voice. Well Grounded currently works with more than twenty civil society organisations in Cameroon, the Central African Republic, the Democratic Republic of Congo, and the Republic of Congo, and has also worked in Gabon and Liberia.

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HONEYGUIDE

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LA DYNAMIQUE DES GROUPES DES PEUPLES AUTOCHTONES
LEWA WILDLIFE CONSERVANCY
LION GUARDIANS
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NATURE CAMEROON
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PLATEFORME POUR LA GESTION DURABLE DES FORÊTS
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SERVICE D'APPUI AUX INITIATIVES LOCALES DE DÉVELOPPEMENT
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TROPICAL FOREST AND RURAL DEVELOPMENT
TUSK TRUST
UJAMAA COMMUNITY RESOURCE TRUST (UCRT)

INTRODUCTION

Many African Civil Society Organisations (CSOs) find it increasingly difficult to secure financing that is aligned with their needs and priorities, covers their costs, and enables their growth. While donors are often willing to fund CSOs to deliver outcome-driven programmes and projects, they are less willing to provide unrestricted funding for core organisational costs such as staffing, governance, administrative overhead, and development.¹

Indeed, most national and local CSOs rely primarily on externally sourced donations and project grants – typically provided by development agencies, international non-governmental organisations (INGOs), or foundations – which often last for short time periods and are restricted to specific activities. Relying too heavily on such restrictive funding can limit CSOs in their creativity, decision making, independence, operational flexibility, and ability to adapt to local needs and priorities or changing circumstances and context. CSOs can subsequently become trapped in an endless cycle of fundraising to support both project implementation and operating overhead.

Compounding these difficulties, CSOs often must devote considerable time and effort to securing external funds and managing relationships with funders instead of devoting those resources to their core mission or mandate. For example, before funds are secured, CSOs must identify promising sources and manage complex application processes. Afterwards, they typically face time-consuming grant administration and reporting. Such hurdles prevent many CSOs from consistently raising donor funding or from raising unrestricted funding.

One solution to these challenges is for CSOs to build greater financial autonomy in order to reduce their dependency on donors. Financial independence can provide CSOs with more time and operational flexibility to generate positive impacts in the communities they serve. It can also mitigate against changes in donor funding patterns or priorities, or domestic restrictions on receiving revenue from foreign donor sources.

Within this context, this report sets out to provide real-world examples of methods that African CSOs have used to generate their own revenue through products, services, and other offerings. As these examples make clear, each approach to earning income involves a great deal of complexity and risk. Thus, this report also covers many of the key factors a CSO should consider before it launches an earned income (e.g., self-financing or revenue generating) initiative. **It is crucially important for a CSO to weigh the costs and benefits of investing time and resources into an earned income model, being cautious of wasting these precious resources or becoming distracted from its core purpose.**

Earned income: *Describes revenue from business, trade, investment or activities that create profits that can be used to support the work and operations of a CSO. Earned income does not include grants, charitable donations or subsidies.*

1. Source: <http://www.maliasili.org/wp-content/uploads/2015/07/Strengthening-African-Civil-Society-Organisations-Brief.pdf>.

Each of the approaches to generating earned income described in this report can, if implemented successfully, offer a CSO the potential to diversify revenue streams, improve underlying financial independence, and build greater long-term operational security and sustainability. They include:

- **SELLING PRODUCTS:** Selling physical goods (e.g., community-based products like crafts or pottery; food-based products; or natural products, such as honey) to clients, donors, visitors, communities or other target markets in order to generate earned income;
- **SELLING SERVICES:** Selling intangible goods to generate earned income (e.g., professional consulting advice; organising events; writing research reports; or providing training).
- **LAND OR PROPERTY LEASES:** Leasing land or property controlled by a CSO or its partners to a third party in return for a lease or rental fee.
- **MEMBERSHIP SCHEMES:** Membership fees collected by a CSO in exchange for benefits such as networking events or information, access to facilities or exclusive forums, and opportunities to be introduced to other members.
- **EVENTS:** Professionally organised events for which participants pay an entrance fee to a CSO.
- **CONSERVATION TOURISM:** Selling conservation experiences – e.g., scientific wildlife monitoring or community initiatives such as habitat restoration – to volunteers willing to pay to participate in conservation work.
- **ENDOWMENTS:** A lump sum of money donated to a CSO – called the principal – may be invested to generate an income return so that the total value of that principal increases over time. The additional money earned through the investments represents income.

The scale and scope of any new ventures will vary considerably in how much income it will create for a CSO, and rarely will a venture be able to provide the majority of revenue that a CSO needs for its operations.

Exploring the core characteristics of these models is the main focus of this report. Case studies drawn from CSOs across Africa, and implemented to varying degrees of success, are presented to illustrate the basic features of each model and to help the reader better understand key concepts by applying them to real-world examples. Although CSOs should NOT use the case studies as templates for creating new earned income models, by mastering the practical application of key concepts and developing a deeper understanding of how they contribute to the success or failure of each model, a CSO will be better prepared to design, evaluate, and initiate its own. The knowledge gained through the business planning process will equip CSOs to make informed decisions about the investing in new opportunities and help to set realistic expectations about the potential level of income.

PLANNING AN ENTERPRISE

Before a CSO can successfully launch products, services, or other offerings to generate earned income, it must first recognise that there is an important difference between an idea and an opportunity. Ideas can be good, bad, or somewhere in between. An opportunity, on the other hand, is an idea that can be effectively implemented with available resources to create value and make a profit. The process of screening ideas and selecting opportunities is known as **due diligence** or **business plan development**.

Prior to pursuing any form of earned income, CSOs should always consider what internal resources and commitments are required to successfully design, implement, and manage key activities through the short, medium, and long term. The factors covered in this section are important for CSOs to consider when making operational, planning, risk, and financial decisions in pursuit of earned income. Because every CSO and every opportunity is unique, each of these concepts may not apply to every scenario. However, by systematically evaluating each one, a CSO will develop a deeper understanding of its chosen business model, the opportunity it presents, and the organisation's own capacity to deliver a product, service, or other offering that is valued by customers, communities, and other stakeholders.

Thus, assessing each of the factors outlined below should be the first step in considering an earned income model. Indeed, undertaking a rigorous and methodical assessment of these factors can help a CSO develop a comprehensive **business plan**, to clearly articulate what products and services the CSO intends to provide; the target market and how big it is; what the sales and distribution channels are likely to be (if applicable); the marketing plan; the operational management strategy; the leadership and human resources plan; as well as the financing needs and cost and revenue forecasts.² A business plan not only documents a CSO's consideration of the important factors outlined here, it communicates to – and helps persuade – key stakeholders, and provides a roadmap for delivery.

Due diligence or business plan development:

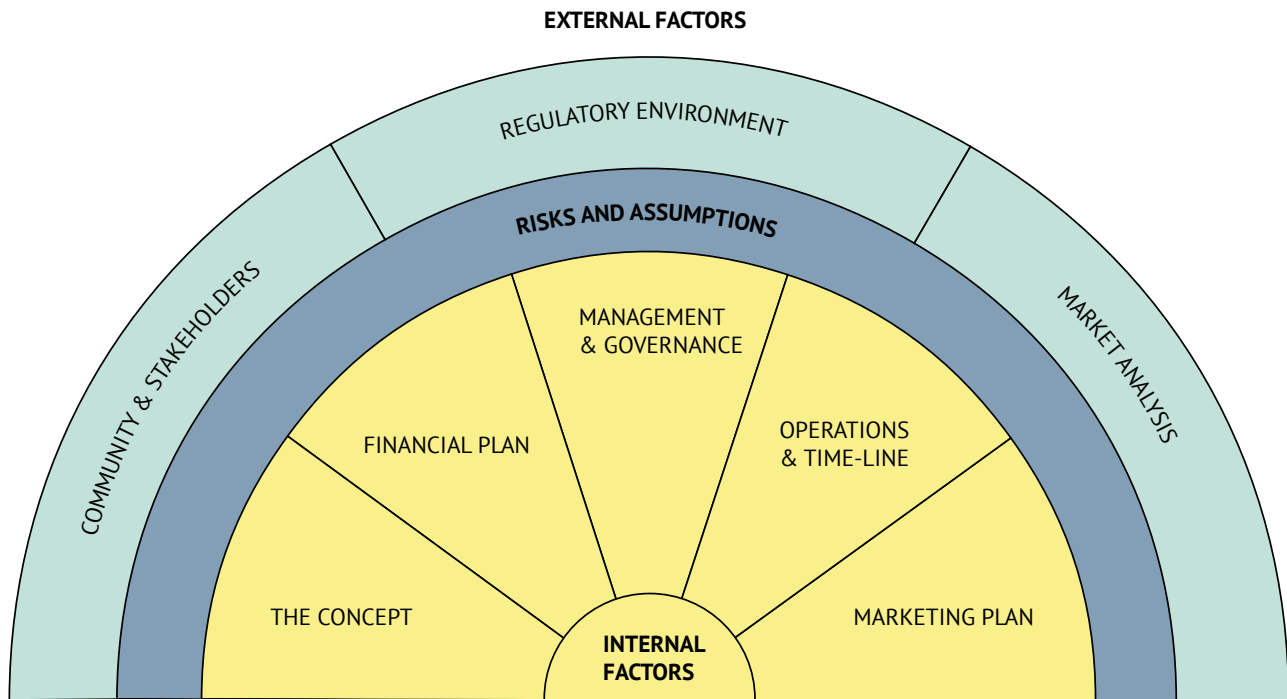
*The process undertaken to understand the operational requirements and contextual considerations involved in the design and successful implementation of an earned income model. This process helps determine the commercial potential of the model and whether a CSO has the necessary assets in place or will be required to develop them. The main purpose of a business planning process is to ensure comprehensive resource planning and risk management has been completed **before** an earned income model is committed to.*

Business plan: *A document that builds on the lessons learned in the due diligence process, formally outlining the specific goals, strategy, and tactical plans of the enterprise, along with background on the organisation's leadership. A successful business plan should provide strong support for the venture's ability to become established as a viable and profitable ongoing entity and may be required by key sources of start-up funding.*

2. For sample business plans or for a business plan template, contact Maliasili or Well Grounded. The Business Model Canvas (<https://canvanizer.com/new/business-model-canvas>) is a simple visual framework for mapping out many of the core components of a business plan on one page.

KEY CONSIDERATIONS

DUE DILIGENCE & BUSINESS PLANNING



A robust due diligence and business planning process will cover a variety of considerations, which fall into three categories:

EXTERNAL FACTORS: Those factors that fall outside the organisation or beyond its direct influence or control, but which are nevertheless relevant to its activities.

RISK MANAGEMENT: The organisation's exposure to uncertainty and its ability to manage change as it arises. Both risks and assumptions can be either internal or external.

INTERNAL FACTORS: Those factors that the organisation determines for itself or over which it has direct influence or control through its strategic planning, oversight, management, or performance.

The remainder of this section will explore each of these considerations in more detail, illustrating the concepts with the example of a CSO considering beadwork as a way to generate earned income.

EXTERNAL FACTORS

1. Market Analysis

A rigorous market analysis is arguably the most important part of the due diligence and business planning process, because a CSO's consideration of many other factors will depend on the information gathered in this step. For example, the projected sales data in a financial plan will depend on the scale of the operations and the nature of the marketing plan, which in turn will be based on the research and analysis done to assess demand for the product or service. Understanding the market is the first step towards understanding the opportunity. Just because you can supply a good or a service does not mean that there are customers ready to demand or purchase that product. Assessing demand is a major component in determining the commercial viability of an earned income model – i.e., “*how much of this product do you think you can sell and thus how much revenue can you potentially make?*” Determining the potential demand for a product, service, or other offering should **at a minimum** include consideration of the following aspects of customers and competition.

CUSTOMERS:

- **Target market:** *Describe the clients or customers being targeted by the business.* This should include a discussion of the following:

- **Customer demographics:** What are the characteristics that identify the intended customers? These may include geographic location, benefits sought, usage rate, age, gender, or lifestyle, among others.

For a CSO looking to sell beadwork, target customers might be international tourists, while a CSO hoping to sell consulting services would likely target INGOs, private companies, or donors.

Beadwork venture: *In eastern and southern Africa, many CSOs launch earned income ventures to sell local handicrafts, such as baskets or beadwork, to create revenue. A beadwork venture is used to illustrate concepts throughout this section.*

- **Market size & share:** How many of these customers exist? And what percentage of those customers could you feasibly secure, known as market share?
- **Market growth:** How many of these customers are expected to exist in the future (i.e., is demand going up or down)? What is the total potential scale of demand? *Describe how the client markets being targeted are changing and how they are expected to change over time.*

In the beadwork example above, a CSO should consider the volume of tourists and their destinations within the country, as well as the factors that influence tourists' travel decisions, such as political uncertainty, visa policies, and the broader economy.

- **Market geography:** Where do these customers live? Are they local, regional, or international? Taxes or restrictions may apply depending on the different countries that goods or services are supplied to – a qualified tax professional can advise on this requirement.

- **Buyer Behaviour:** When do these customers make purchases? Where? Why? How? Is the purchase decision made by an individual or a group? What are the key drivers of the decision to purchase (e.g., price, quality, design, timing, delivery, service, etc.)? Are purchases made seasonally or somehow tied to other time-sensitive considerations? *Describe the customer's purchasing process, including how long it takes from never having heard of the product or service to making a satisfied purchase.*

A CSO looking to sell beadwork should consider tourists' travel habits. For example, tourists from many countries – including the U.S. – typically travel overseas during June, July, and August and tend to buy items at convenient locations, such as lodge gift shops.

COMPETITION:

- **Competing offerings:** *Describe any other similar products or services (i.e., "offerings") currently available on the market. This should include a discussion of the following:*

- **Market presence:** How well are existing offerings established in the market? Which offerings (or organisations) have the most market share?
- **Strengths and weaknesses:** What attributes of the organisation and their competing offerings represent competitive advantages or disadvantages? For a product, these attributes may include quality, price, performance, delivery, timing, or service, among others. For an organisation, they may include access to resources, established relationships, management expertise, or many other factors.
- **Substitute products:** What other offerings—not identical, or even necessarily similar—might the prospective customers purchase instead? For example, if a CSO planned to sell Maasai blankets to tourists as souvenirs, those same tourists might instead choose to purchase soapstone carvings—a very different product—from a nearby region. Potential competition is not always immediately obvious.
- **Barriers to entry:** What barriers exist that may prevent or discourage new competitors from entering the market?

Barriers to entry: *Obstacles that prevent or make it more difficult for a business to enter a particular market. For CSOs seeking to start an earned income model, such obstacles may include the cost of purchasing expensive equipment or limits on access to land or raw materials.*

- **Competitive opportunity:** Where is the opening for the offering to outperform the competition? *Describe how competitors are vulnerable and how a new offering can capture a substantial share of the market.*

In the beadwork example, a CSO should consider other nearby sellers – not only of beadwork, but of other souvenirs – and how it might compete with them in terms of price, quality, and other factors.

2. Regulatory Environment

A second external factor that CSOs should consider in performing their due diligence is the legislative and regulatory context. Regulation can have a tremendous impact on the success (or failure) of a new offering or an entire organisation. Failure to properly consider such factors may result in fines, compliance actions, unanticipated costs or taxes, legal action, or worse. Thus, **a CSO should always seek advice from qualified legal counsel before committing to an earned income venture.** Regulatory concerns may arise during any part of the process of bringing an offering to market, from design and development, to sourcing materials, to production activities, to sales or even post-sale.

Determining the regulatory environment for a product, service, or other offering should **at a minimum** include consideration of the following factors at the local, national, and regional levels.

NATIONAL FACTORS:

- **National government:** *Describe any national legislation, policy, or other regulation and how it is likely to impact the offering.* This should include a discussion of the following:
 - **Existing regulation:** What relevant national regulation currently exists? How might it impact the earned income model?
 - ☑ Tax laws: In some countries and under certain circumstances, a CSO may need to isolate its earned income activities under a legally separate entity to preserve its tax-exempt status. Tax laws, incentives, and obligations can vary considerably across jurisdictions and may change dramatically over time. **A CSO should always consult the advice of a legal professional with relevant tax expertise before launching a self-funding venture.**
 - **Emerging regulation:** Based on national trends, what additional relevant regulation is reasonably likely to emerge in the near to medium term? How might it impact the earned income model?

LOCAL FACTORS:

- **Local government:** *Describe any local legislation, policy, or other regulation and how it is likely to impact the offering.* As above, this should involve a discussion of both existing and emerging regulation, including local taxes.

REGIONAL FACTORS:

- **Regional government:** *Describe any regional legislation, policy, or other regulation and how it is likely to impact the offering.* For example, this may involve a discussion of intergovernmental treaties, such as that of the East African Community (EAC) or COMESA.

A CSO selling beadwork should consider any laws or regulations that might impact the production or trade of its products. This may include regulation of small businesses (e.g., licensing), taxes on the profits, or even regulations in tourists' home countries that may discourage the purchase of certain materials (e.g., wood or animal products).

3. Community & Stakeholders

CSOs exist to fulfill their mission and deliver value to society, communities, or other constituents. Therefore, it is important that they consider these stakeholders when looking at opportunities to generate earned income. Even though these stakeholders may not be the intended customers for a product, service, or other offering, they may nevertheless be affected—either positively or negatively—by its introduction to the market. This may occur directly, through employment, partnerships, supplier relationships, or other channels. Or it may occur indirectly, via the environmental and social impacts of the production or sale of the offering.

A consideration of the community and other key stakeholders relevant to a product, service, or other offering should **at a minimum** cover the following factors.

- **Geographic location:** Where is the project area or market? *Describe the location, including maps where appropriate, and explain how the area would be accessed by the main clients or customers.*
- **External assets:** What local resources are relevant to the earned income model? *Describe natural resources, physical features, wildlife, and ecosystem services that may be affected by the earned income model. Most ventures, especially if they are reliant on natural resources or require significant resources will require an Environmental Impact Assessment (EIA), and reliable external experts should be consulted about that process, which will likely have specific requirements by country.*
- **Stakeholders:** What external stakeholders are relevant? *Describe the main stakeholders, both public and private, who are likely to either positively or negatively influence—or be influenced by—the earned income model. This assessment should examine any potential threats to the human rights of stakeholders, especially those of marginalized communities, women, or children.*

A CSO selling beadwork should consider whether its target communities have the skills to produce the kind of beadwork that the market demands; who the local labour pool would be; how the beadwork production would impact other livelihood or economic activities; and how its existing and potential donors are likely to view the production and sale of beadwork.

INTERNAL FACTORS

4. The Concept

The business planning process helps CSOs differentiate between ideas and concrete opportunities. To get started, a CSO must make a clear statement about the opportunity and capture the essence of its business concept to address that opportunity. In this way, a CSO may begin forming and articulating a detailed understanding of the product, service, or other offering, which is the core objective of this process. Once there is a basic concept, the CSO can go on to assess the external landscape, including customers and competitors, the regulatory environment, and the needs of key stakeholders, the focus now turns to a CSO's own venture.

The business concept should **at a minimum** include consideration of the following factors.

- **Opportunity statement:** What is the opportunity? What forces are creating the opportunity? Why is there an opportunity now? *Describe the nature and size of the business opportunity that the offering is intended to address.*

How does the CSO plan to address the opportunity? Is the earned income model based on a product, a service, or an alternative approach? What are its key attributes? *Describe the product, service, or other offering you will be selling—what it is, what it isn't, and why your organisation is the right one to bring it to market.*

- **Description of the earned income model:** How does the CSO intend to generate earned income? Is it selling a product, a service, or something else?
- **Key attributes:** What are the most essential and/or unique attributes that add value to the offering? (e.g., seasonality, uniqueness, local availability, etc.)
- **Enabling factors:** What key assets or property rights will enable the offering to be accessed, produced, and delivered (e.g., the right to develop agriculture, graze livestock, engage in forestry, hunt, build property, etc.)? What factors will keep competitors from “copying” the offering?

Because many African countries enjoy tourism industries, a CSO may identify an opportunity to, for example, sell beadwork that highlights what is unique about the local culture through their design and the materials used, and to promote how production of beadwork creates local jobs.

5. Marketing Plan

A great idea is meaningless without customers. A marketing plan describes how sales will actually be achieved. During this stage of the due diligence and business planning process, a CSO should build on what it learned from its market analysis, to develop a detailed strategy that will address the opportunity by drawing on the organisation's competitive strengths.

A CSO looking to sell beadwork should consider how it will tell its story, and create a narrative around its products that will help customers understand their unique value.

Determining a viable marketing plan for the product, service, or other offering should **at a minimum** include consideration of the following factors:

- **Price strategy:** *Describe how the offering will be priced.* This should include a discussion of the following:

- **Price competition:** How does the price compare to the prices of competing offerings? If it is higher, what additional value does the offering provide to the customer to justify the additional cost (e.g., unique design, quality, performance, service, etc.)? If it is lower, how will the venture maintain profitability, but maintain quality (e.g., lower labour or materials costs, more effective manufacturing and distribution, lower overhead, etc.)?
- **Differential pricing:** Will the offering be priced the same at all times for all customers in all quantities? What price discounts might be worth considering under special circumstances—for example, key customers, bulk or wholesale purchases, or cash payments?

Retail vs. Wholesale: *Retail generally refers to when the manufacturer sells directly to the consumer while wholesale means the manufacturer sells in bulk quantities to a middle man who in turn sells to the consumer.*

A beadwork-selling CSO should consider the prices of other nearby sellers and whether it might offer discounts for larger purchases.

- **Sales strategy:** *Describe your approach to identifying, creating, and maintaining customers.* This should include a discussion of the following:

- **Sales cycle:** What sales approach will be used to move the customer through the purchasing process identified in the market analysis? How will the CSO build awareness, generate interest and understanding, make a sale, and continue to build the customer relationship?
- **Sales team:** If the product, service, or other offering will be sold by a full-time sales team or through third-party sales representatives, how large will the team need to be and what areas will each member cover? How will members be recruited, trained, or vetted? How will the team need to evolve over time?
- **Customer service:** How will the CSO maintain the customer relationship after the purchase?

In the beadwork example, a CSO should determine how – and where – it might catch the attention of potential customers to convey the value of its products, and how many sales people may be required to carry this out. Will it have other business partners to assist in marketing or sales of the product to potential customers? Will it pay a commission for sourcing customers such as tourists?

■ **Advertising and promotions:** How will potential customers become aware of the product? Describe how the products will be promoted and marketed. This should include a discussion of the following:

- **Media:** What type(s) of media will be used (e.g., magazines, newspapers, telemarketing, catalogues, radio, billboards, websites, social media, etc.)? *Describe specific channels, costs, and expected response rates.*
- **Publicity:** How might the CSO generate free publicity for the business? Are there any “guerrilla marketing” tactics (e.g., creative publicity stunts, viral videos, etc.) it might employ? Is the venture connected to any issues that are newsworthy?

Many tourists book their travel online and rely heavily on “word of mouth” recommendations from friends, presenting unique opportunities for a CSO to publicize its beadwork through websites and social media and by enlisting existing customers as “ambassadors” for its brand.

■ **Distribution channels:** Where will customers purchase and/or access the offering? Will it be sold at tourism camps? Online? Via a wholesaler? Will it be distributed through supply trucks? *Describe how the offering will be made available for purchase and distributed.* This should include a discussion of:

- **Access and costs:** How will the CSO gain access to distribution channels? What margins, if any, will need to be paid to retailers, distributors, wholesalers, venue providers, or others? How will requests for exclusive distribution rights be handled?
- **Contracts:** If distribution channels involve entering into legally binding contracts, has the CSO consulted with qualified advisors about these?

Distribution channel: *The chain of individuals and/or institutions involved in getting a product or service into the hands of the consumer. For goods, how will the product physically get from where it is made to where it is sold?*

In the beadwork example, a CSO may wish to sell its products in local markets, which may require negotiating a contract with market owners or managers; or online to a broader customer base, which may involve working with a shipping partner.

6. Management & Governance

Effective leadership is essential to any organisation, but it becomes especially important in a start-up venture. When building a business venture from the ground up, success hinges on putting together the right team of people with the proper balance of technical, managerial, and business skills and experience. Some CSOs may find this leadership readily available within their organisation; others will need to start from scratch.

In some cases, setting up an entirely new, legal business entity, such as a limited company, may be required to enable the supply of trade and services, to receive payments, and to issue invoices.³ **CSOs should always seek qualified legal counsel to recommend and execute the optimum legal structure for administration, tax, and liability management under each earned income model.**⁴

Limited company: *A legal entity that can be established for receiving and managing profits from certain earned income models. Generally limited companies are owned by shareholders, which may include a CSO. Shareholders benefit from the profits generated by the company. They normally have directors or senior executives responsible for managing the company.*

Selecting the appropriate organisational structure and identifying, recruiting, and hiring the right leadership team should **at a minimum** include consideration of the following factors:

■ **Organisational structure:** *Describe how the earned income venture will be incorporated into the CSO's existing structure, or established as its own separate structure. This should include a discussion of the following:*

- **Existing skills and shortcomings:** What relevant skill sets are already present within the CSO? What skill sets need to be developed or acquired?
- **Desired management structure:** What management functions will need to be filled? What will the organisational structure look like, including lines of reporting? How will a board of directors and key advisors be involved?
- **Regulations and taxes:** What regulatory and tax implications will be involved based on how the venture is structured? **All CSOs should seek independent and professional tax and legal advice on the legality of establishing earned income activities owned by or benefitting the CSO.** Beyond legal considerations, CSOs should also consider reputational risks to their existing operations and donor funds.⁵

3. CSOs should always seek professional legal advice to determine if a business entity or legal corporate structure is required or indeed permitted to develop an earned income model. Some CSOs may, for example, be restricted by their statutes in owning or being a shareholder of a business entity.

4. CSOs should be aware and recognise that diversifying funding income beyond donor grants does not always involve setting up a business. For example, other successful mechanisms may be considered, such as crowdfunding or, if applicable, voluntary carbon or REDD+ offsets. For a guide to crowdfunding see: http://www.undp.org/content/dam/sdfinance/doc/Crowdfunding_UNDP.pdf or <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/crowdfunding-in-east-africa/#.WmCKliN0eCO>; for a guide to voluntary carbon offsets and expert contacts see: <http://www.v-c-s.org>; and for a guide to REDD+ and expert contacts see: <https://theredddesk.org/what-redd>.

5. For example, depending on the country in which they live and operate, most individuals and organisations are required to pay tax while many charitable organisations may be entitled to tax exemptions. Governments usually categorise/bracket organisations and individuals into different tax bands and this can make some legal corporate structures more attractive than others. When considering potential earned income models, the tax bracket of the target market and the tax environment for the business entity should always be considered. CSOs should discuss this, and other legal issues, with their trusted advisors during the due diligence process.

- **Third-party management and/or partners:** Would an external, third-party management team more effectively oversee day-to-day operations of the earned income venture, or a specific component of the venture that requires specialised skills? What would such an arrangement cost the CSO, both in terms of money and time? *Describe any third-party expertise that may be required to implement the business – such as a sector specialist.*

Selling commercial products, such as beadwork, differs greatly from the typical activities of a CSO and is likely to require specialised expertise and possibly a separate legal structure.

- **Governance:** What type of formal oversight will govern the venture? *Describe the CSO's philosophy about the size and composition of a board of directors.*

- **Board constitution and terms of reference:** Which specific individuals will constitute the board of the company and what will be their mandate?
- **Basis of appointment/removal:** How will board members be appointed and removed?

A beadwork-selling venture is likely to require a well-established foundation of trust between an organisation and a community that produces beadwork. Thus, a CSO should consider appointing one or more community representatives to its board or other governance structure to help in building and maintaining this trust.

- **Management:** How will the CSO ensure the venture is managed by a leadership team with character, credentials, and competency? How will the leadership strike a balance between serving the CSO's mission and creating profits? *Describe the approach to identifying, recruiting, hiring, and evaluating key management personnel.*

- As a rule, all managers – whether internal or external – should be qualified individuals with business and financial management, accounting, investment fundraising, client identification and marketing, human resources management, and budgeting experience. Each manager should be selected based on their:
 - ☑ Strong engagement in developing and shepherding the business plan;
 - ☑ Strong enterprise philosophy – i.e., they are motivated by the underlying income and profit components of the earned income model as well as the mission;
 - ☑ Proven track record of building successful earned income models and management skills suited to the proposed model;
 - ☑ Personal stake in building the venture – for example their success should be correlated to that of the venture.

7. Operations & Timeline

An operations plan outlines how the venture will function on a day-to-day basis in the near, medium, and long term. It helps the CSO determine the facilities it needs, space requirements, internal processes, necessary equipment, labour force requirements, and any design and development that may be required to become a fully functioning operation. Furthermore, a detailed assessment of these factors helps the CSO better determine the time frame in which the venture may be realistically launched.

Operations typically require more planning, involve more employees, and cost more money than any other aspect of a business venture. Thus, operating plans often require making difficult but important trade-offs. It is impossible for a single organisation to have the lowest costs, the highest quality products, the best on-time delivery, and the highest caliber of customer service all at once. The key to an effective operating plan is making tradeoffs that are well aligned with your other strategic, marketing, or financial plans.

Evaluating the effectiveness of an operating plan should **at a minimum** include consideration of the following factors:

■ **Design and development:** *Describe any design or development necessary before the venture may be launched.* This should include a discussion of the following:

- **Current state:** What is the present state of the product, service, or other offering? What remains to be done to make it ready for sale?
- **Challenges:** What difficulties or risks are anticipated in making the offering ready for the market? How might they be resolved?
- **Intellectual property:** Has the CSO filed, or does it anticipate filing, for any patents, trademarks, copyrights, or other intellectual property rights? Does it anticipate facing any disputes related to its own intellectual property or that of another organisation?

A bead-selling venture would typically be launched in collaboration with a community that traditionally produces beadwork, thus any design and development would likely focus on process and/or product improvements such as new tools and equipment or novel bead designs that appeal to the target customer.

■ **Production considerations:** *Describe how the product, service, or other offering is created.* This should include a discussion of the following:

- **Production process:** What are the key inputs (raw materials), throughputs (intermediate products or stages in development), and outputs involved in bringing the offering to market? Does the process involve any bottlenecks? What lead- or lag-times come into play? What quality controls should be in place?

- **Make or buy?** What are the relative advantages and disadvantages of creating the offering (or components of the product) versus paying to have it (or them) made? Consider costs, quality, timeliness, efficiency, etc. For example, if making the product, what facilities and equipment will be necessary? Will they be leased or bought? How will those needs change over time?
- **Capacity:** What is the organisation's maximum capacity—not only for production but for inventory management, including shipping, storage, returns, etc.? How does this capacity compare to sales projections?

In the beadwork example, a CSO should consider the production process and how it impacts the number of pieces that may be produced and sold. For example, design and assembly of beadwork, require time and, in some cases, special equipment or intensive labour processes that may create production bottlenecks, especially as demand increases. Common challenges in this case may include scaling up production to a meaningful level and achieving consistency in the quantity, quality, and timing of production.

■ **Timeline:** What is the timing and interrelationship of events required to launch the venture and ensure its objectives are met? *Create a graphical schedule that identifies key dates, milestones, etc.* This should include the following:

- **Key activities:** Does the schedule include core business activities such as product development, market planning, sales campaigns, production, and operations?
- **Milestones:** Does it include important turning points, such as incorporation, rental of facilities, hiring of key managers, starting production, etc.?
- **Risk factors:** What risks are most likely to cause the venture to get off schedule? What actions can the CSO take to limit or correct for those risks?

8. Financial Plan

Finally, if the entire point of the venture is to generate earned income for the CSO, it must consider how the model creates profit and how much profit it can create. By developing a better understanding of the fundamental economics of the business model, including initial investment required, the CSO can make reasonable projections about future income and therefore better determine the long-term financial viability of the product, service, or other offering.

Profit: *The financial benefit or income generated from participating in earned income activities minus the costs incurred in developing and delivering the product or service.*

If high-caliber finance and accounting expertise is not internally available, **CSOs should consult with qualified financial professionals to ensure the rigorous development of credible economic and financial analyses.**

Evaluating the financial potential of an earned income venture should **at a minimum** include consideration of the following factors:

■ **Economics of the model:** *Describe how the earned income model generates profit.* This should include a discussion of the following:⁶

- **Revenue drivers:** What are the factors that influence the amount of earnings a model can achieve (e.g., sales volume, variety of offerings, etc.)?
 - ☑ Does the venture have a variety of revenue drivers (e.g., products) or only one? Are prices fixed or flexible?
- **Profit margins:** What is the gross profit margin (i.e., sales price minus cost of goods sold or variable costs) for each product, service, or other offering?
 - ☑ Are profit margins relatively low (e.g., as with standardised products, which are widely available and can be sold for a minimal increase over what they cost to produce) or relatively high (e.g., highly customised items where a higher price can be charged)?
- **Volumes:** How many sales are anticipated over a given period of time (e.g., daily, monthly, etc.)?
 - ☑ Is the venture a relatively high-, medium-, or low-volume business? Does it face significant constraints on its production capacity? (i.e., how much of the good it can produce in a given time period?)

Profit margin: *The amount by which revenue exceeds expenses. If a CSO charges 10,000 shillings for a product that cost it 6,000 shillings to produce, its gross profit margin is 4,000 shillings or 40 percent.*

6. Effort should be made to integrate each of these considerations into an overall economic model for the venture. For example, a model with low volumes, low margins, high fixed costs, and a single revenue driver at a fixed price is almost certain to lose money. On the other hand, profitability is more likely for a model with high margins, medium volumes, medium fixed costs, and multiple revenue drivers with some price flexibility.

- **Cost structure:** What are the fixed and variable costs involved in the venture? For a business to be profitable, its prices must provide a “contribution margin.” In other words, the price of a product must cover not only what it cost to produce the good (i.e., variable costs), but also contribute something toward the organisation’s fixed costs (e.g., rent and insurance). Understanding cost structure helps the CSO determine how many sales at a given price it will need to make in order to fully cover its fixed costs and begin to earn a profit. For example, consider the following:

Fixed and variable costs:

Fixed costs remain the same regardless of production (e.g., rent, equipment, etc.). Variable costs change depending on the amount of production (e.g., wages, materials, utilities, etc.).

- ☑ **Fixed costs:** US\$100 per month
- ☑ **Variable costs** (i.e., what it costs to produce a single item): US\$5
- ☑ **Price of an item:** US\$6
- ☑ **“Contribution margin”:** \$1 (i.e., price minus variable cost)

In this example, the CSO would need to sell 100 items each month to cover its fixed costs. When it sells its 101st item, it has begun to make a profit.

- ☑ What is the venture’s proportion of fixed to variable costs? Should the CSO outsource certain functions to convert fixed costs into variable costs?

- **Start-up costs:** What one-time costs will the CSO incur to start up the venture?

A bead-selling CSO should determine whether the price it plans to charge to customers will exceed the incremental costs involved in producing the beadwork (e.g., wages for workers and materials such as glass, spindles, and paint)—and by how much. Based on this profit margin and the number of sales the CSO can reasonably expect to make, how long will it take the venture to cover its fixed costs (e.g., rent for workspace, etc.) and begin earning a profit?

- **Financial projections and sensitivity analysis:** CSOs must build comprehensive models of the revenue potential and operating costs of the opportunity across a minimum of 5 to 10 years. This should include:

- **Base, break-even and best case scenarios:** *Develop a financial performance forecast for the venture illustrating three scenarios:*
 - ☑ **Base case:** The expected outcome, assuming everything proceeds as planned, in which the business generates a modest profit.
 - ☑ **Break-even:** The minimum viable outcome, in which the business makes no profit but has no deficits (i.e., total revenue covers total costs).

- ☑ **Best case:** The best possible outcome, in which the business generates a significant profit. In business parlance, this is often called a “bull case.”

In the bead selling example, a CSO should forecast its financial performance using a “base case” based on its prior market analysis. It should also consider how sales that are slightly lower (or higher) than anticipated will affect the long-term viability of the operation.

- **Financial sustainability:** Are profits highly stable or vulnerable to competition, technological disruption, changing customer preferences, or other risk factors?

RISK MANAGEMENT

9. Risks & Assumptions

No business is immune to risks or unforeseen problems that can arise. Thus, a CSO must complete a full risk assessment and risk mitigation plan for its earned income venture prior to beginning implementation. It must also consider the key assumptions underpinning its business planning process, including how any deviation from these assumptions might impact the success of the venture.

This assessment should **at a minimum** include consideration of the following factors:

- **Comprehensive market risk analysis:**

- **Market risk:** *Describe risks associated with the market the proposed business will be operating in (e.g., disease, price crash, change of law).*
- **Political risk:** *Describe potential political risks to the business (e.g., disruption during election cycles or new government ministers impacting the company).*
- **Currency risk:** *Describe the business’ exposure to currency risks (e.g., buying products or materials in US\$ but selling them in the local currency).*
- **Policy risk:** *Assess potential changes in policy or legislation that could impact the viability of the business model (e.g., change in resource use rights)*
- **Security risk:** *Describe any security threats that could compromise the business (e.g., illegal forestry, militia, terrorism, crime).*

Market risk: *The risk of loss due to factors that affect the entire market—not just the specific entity (e.g., interest rates, price inflation, etc.).*

A beadwork-selling operation could be affected by a number of market-level risks, including too many sellers (which would lower sales prices), a strain on key inputs such as glass, metal, or wood for beads (which would increase materials costs), or political upheaval, security threats, and economic uncertainty (which would lower the number of visiting tourists).

■ Comprehensive enterprise risk analysis:

- **Seasonality:** Describe any seasonal risks associated with the business or product (e.g., drought, rainy season).
- **Product demand:** Describe any risks which could impact client demand for the product.
- **Product supply:** Describe any risks which could impact the ability of the business to manufacture, distribute, or sell the product to clients.

Enterprise risk: Risk of loss associated with investing in a particular product or company (e.g., mismanagement, creditworthiness, etc.).

Selling beadwork is highly dependent on tourism, which may be dampened by a variety of factors, including weather, disease, and accessibility among other social, political, and economic considerations. A CSO might consider mitigating these risks by exploring the feasibility of selling its beadwork online, either directly or through a retail partner.

- **Risk mitigation:** What measures should the business undertake to mitigate against these risks? Describe the risk management and mitigation plan.
- **Key assumptions:** What underlying assumptions are most critical to the success of the venture? Describe the key assumptions made in performing the due diligence. For example, these may include:
 - ☑ Overcoming key hurdles in product design
 - ☑ Obtaining an important patent, license, or permit
 - ☑ Acquiring a site or facility that is critical to the business
 - ☑ Accessing a distribution channel that is vital to sales projections
 - ☑ Hiring of experienced staff members in a crucial area

Maliasili & Well Grounded Resources

To assist CSOs in assessing these key considerations, Maliasili and Well Grounded have specific tools and business planning templates available on request that provide additional guidance for comprehensively undertaking a business planning process.

& CASE STUDIES

The previous section established the basic concepts that make up a due diligence and business planning framework. In this section, the reader has the opportunity to see how these important ideas may be applied to specific earned income models and associated real-world circumstances. The nine case studies covered here provide practical examples of how a variety of African CSOs have attempted to generate earned income. In reviewing them, a CSO can gain a deeper appreciation of the many, diverse challenges it is likely to face in pursuing its own earned income strategy.

These lessons will create a foundation for CSOs to embark on their own due diligence and business planning processes to better evaluate earned income opportunities, thereby separating potential ideas from viable opportunities. Critically, the following case studies should not be used as templates for creating a venture. Rather, each CSO should evaluate its own unique resources, operating context, risks, opportunities, and viability using the framework presented in the previous section *before* pursuing or committing resources to any earned income opportunity. While successfully implementing an earned income model is always technically difficult and resource-intensive, it may prove even more challenging in remote locations where access to resources, experts, clients, markets, and products can be limited.

When an earned income venture is poorly executed, it can have catastrophic impacts on the financial resources, capacity, impact potential, core mission, and overall organisational performance of a CSO. Organisations must therefore always carefully consider each opportunity, taking into account their underlying mission and mandate. **Professional, contracted support from business, legal, and financial management experts to assist in building the mechanisms described in this report will help a CSO mitigate many of these risks.**

The remainder of this section covers the following earned income models and associated case studies.

EARNED INCOME MODEL	CASE STUDY CSO PROFILED
SELLING PRODUCTS	Northern Rangelands Trust
	Ngola-Achip Community Forest
	Tropical Forests & Rural Development
SELLING SERVICES	Centre D'appui à la Gestion Durable des Forêts Tropicales
PROPERTY LEASES	Mara Naboisho Conservancy
MEMBERSHIP SCHEMES	Kenya Wildlife Conservancies Association
EVENTS	Lewa Wildlife Conservancy
CONSERVATION TOURISM	Blue Ventures Expeditions
ENDOWMENTS	Borana Conservancy

Each earned income model is described in the following terms:

- ☑ **Description:** An overview of the earned income model.
- ☑ **Core Attributes:** A summary of the inherent advantages and disadvantages of the model.
- ☑ **Risks:** A consideration of key risks inherent to the model.

The fundamental strengths and weaknesses of each earned income model are illustrated in more specific detail within the complementary case studies. Each case study describes a situation in which a CSO has implemented the model and the case is assessed in the following terms:

- ☑ **Description:** An overview of the CSO, background context, and operating environment.
- ☑ **Model:** The specific earned income model being implemented.
- ☑ **Key considerations:** Mirroring the business planning framework presented in Section 2, the case is assessed according to key external factors, internal factors, and risk management.

SELLING PRODUCTS

DESCRIPTION

Selling tangible goods (e.g., community-based products like crafts or pottery; food-based products; or natural products, such as honey) to customers, clients, donors, visitors, communities, or other target markets in order to generate earned income.

CORE ATTRIBUTES

ADVANTAGES

- **Employment and community income:** Earned income from this type of model can support local employment and generate local economic growth, especially when the products are derived from community-based activities.
- **Alternative income:** Products harvested or produced legally under controlled conditions, often overseen by the CSO, can provide a livelihood to local communities that is preferable to alternatives. By providing economic security, the model can create financial and skills-based incentives for communities to not engage in illegal or dangerous income-generating activities – for example artisanal mining or logging.
- **Exposure:** Products are physical resources that can be used to promote awareness and understanding of the local economy, culture, and history around the region or even the world.
- **Ability to scale:** When properly managed, product revenue scales up faster than the associated costs, which makes a product-based model more attractive than one based on services or events, for example, when a CSO is looking to launch a venture with high growth potential.

DISADVANTAGES

- **High upfront costs:** Selling products often involves significant upfront costs to produce and process the goods, purchase associated machinery, and employ and train staff.
- **Human resource capacity barriers:** Selling products necessitates strong sales and marketing expertise, which generally requires formal training – especially if targeting international markets.
- **Competition:** Competition from more commercially motivated and organised parties can be difficult for CSOs to deal with as they often lack the resources, expertise, and mandate to compete with business experts. Easily or commonly produced items, like beads or other curios, may face significant numbers of competitors in the market place, driving down value.

- **Profit margins:** A lot of products have low profit margins. To overcome this, high sales volume needs to be achieved to make a business or product commercially viable. Often CSOs lack access to the natural, financial, and other resources required to produce products at the required volume to generate enough earned income to cover their costs and create a positive impact.

RISKS

- **Mission drift:** Developing an earned income model based on selling goods can distract a CSO from its core mission and objectives.
- **Monetary risks:** Handling cash, which is often the case when selling products (e.g., at a market), can increase risks of corruption and facilitate the misappropriation of cash with very little transparency or formal invoicing.
- **Development time and considerations:** It can take considerable time to develop a brand, sales channels, and a dedicated client base prepared to buy products again and again. Time is a valuable asset for CSOs, which should not commit to such a model without careful planning and consideration.
- **Supplier relationships:** If the CSO relies on one or more suppliers (e.g., a local community) to provide the goods or raw materials needed for its product-based model, it must ensure positive relationships with the supplier(s) are maintained. Helping or advising communities on how they can improve and safeguard their supply chain, increase production, or supply higher quality products can build goodwill – other examples include improving farmland management, and ensuring payments are fair, transparent, and made on time.
- **Benefit distribution:** CSOs should ensure benefits paid or delivered to suppliers (in particular, communities) are distributed fairly within the supply chain.
- **Seasonality:** Many products may only be available on a seasonal basis, limiting the ability to generate year-round income. In low-value, low-volume markets (e.g., basic fruits and vegetables), this can be a determining factor for the viability of the model.
- **Market volatility:** Changes in supply, demand, and pricing can make cash flows from selling products unpredictable. For example, a drought that impacts crop production may reduce supply or increase the price of raw materials required to produce the good, while changing consumer preferences may put downward pressure on sales.



SELLING PRODUCTS | CASE STUDY 1

ORGANISATION:
NORTHERN RANGELANDS TRUST

WWW.NRT-KENYA.ORG

GOODS BEING SOLD:
LIVESTOCK

DESCRIPTION⁷

The Northern Rangelands Trust (NRT) is a community-led, non-governmental organisation set up in 2004 in northern Kenya by a coalition of community leaders, politicians, and conservation NGOs. Its mission is to develop resilient community conservancies, which transform people's lives, secure peace, and conserve natural resources.

Community conservancy:
Land set aside by community or individual landowners or by corporate bodies for the purposes of wildlife conservation.

NRT is a membership organisation made up of 35 community conservancies. The member conservancies work across 45,000 square kilometres of northern and coastal Kenya. With support from principal donors USAID, The Nature Conservancy (TNC), DANIDA, and Agence Française de Développement (AFD), as well as many smaller donors, NRT is supporting and empowering communities to develop locally led governance structures, run peace and security programmes, take the lead in natural resource management, and build resilient livelihoods through sustainable economic development. The community conservancies are starting to have a significant impact on building peace, reducing poaching, strengthening governance, and heightening awareness around the importance of natural resource and rangelands management. Their success has helped shape new government regulations on establishing, registering, and managing community conservancies in Kenya.

7. For further information, also see: http://global-growing.org/sites/default/files/GGC_Lewa.pdf.

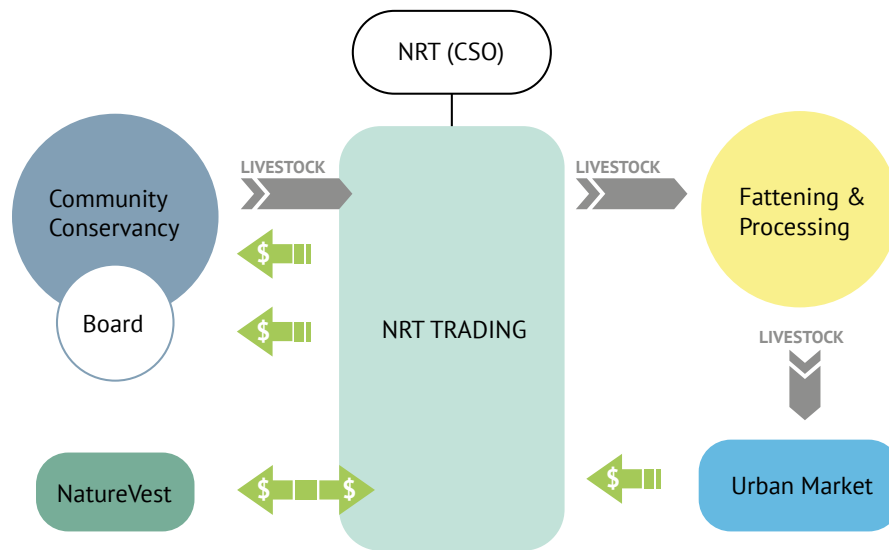
NRT owns a social enterprise called NRT Trading, whose mission is to identify, incubate, pilot, and grow sustainable businesses within the NRT conservancies. NRT Trading works with conservancies to identify opportunities for generating commercial revenue and then plans, pilots, and scales businesses that support the conservancies. NRT Trading also works with women, youth, and other community members to build entrepreneurial skills, access financial services, and adopt sustainable commercial practices. Established as a limited company in 2014, NRT Trading creates earned income through three main businesses – livestock, beads, and tourism. This case study will consider the livestock trading business in detail.

Social enterprise: An organisation that uses business or earned income models to create positive impacts for societal and environmental well-being in addition to financial profits.

Overgrazing of cattle has become an increasingly serious issue in the northern rangelands of Kenya, where the size of one's herd is a symbol of wealth and a source of pride. As cattle populations grow and weather patterns become more volatile, increasing pressure is placed on natural resources in the region. This has resulted in an escalating incidence of erosion and poor soil quality, thereby diminishing cattle health and breeding potential, as well as the habitat for wildlife including elephants and rhinos. Furthermore, herders often trek across many kilometres and days to access cattle markets where prices are often very low, especially when cattle condition has deteriorated during the journey.

NRT Trading's Livestock to Markets (LTM) business supports local cattle herding communities that reside within NRT's member conservancies. LTM was originally established in 2006 by NRT as a pilot programme with grant funding from conservation NGOs and foundations. In 2013, NRT made two important decisions relating to LTM. The first was that LTM needed to operate as a sustainable, self-supporting business. The second was that for LTM to achieve the desired social impacts, the business needed to scale up from trading 500-1,000 cattle per year to trading more than 10,000 per year. For this to happen, LTM would have to raise significant funds to support working capital and infrastructure development and transition from an NGO programme to a disciplined commercial enterprise. NRT Trading was established as a separate, taxable commercial entity in 2014 and LTM's assets were transferred from NRT to NRT Trading. Concurrent with this reestablishment of LTM as a commercial business, NRT Trading received a US\$7 million funding commitment from NatureVest,⁸ in the form of a \$3.5 million, seven-year working capital loan with extended repayment terms and a \$3.5 million capital grant to fund the construction of a new abattoir.

8. NatureVest is a social enterprise investment company founded by The Nature Conservancy, an American NGO. See www.naturevesttnc.org and http://www.naturevesttnc.org/pdf/LTM_Kenya_NVST_Datasheet.pdf for more information.

FIGURE 1. NRT TRADING'S LIVESTOCK TO MARKETS BUSINESS

As originally envisioned, NRT Trading would buy cattle directly from herders through the conservancies that adhere to positive conservancy management, including good governance, conservation, and rangeland management. The model was based on the following key steps:

- **Stage 1 – Planning:** NRT Trading informs the participating conservancies that they are planning to purchase cattle at a specific future date.
- **Stage 2 – Cattle selection:** The conservancy calls a community and livestock owner meeting to introduce potential sellers to LTM and explain how the process works, including the requirement for livestock owners to contribute KSh 1,000 to the conservancy for each steer purchased by LTM.
- **Stage 3 – Cattle purchase:** NRT Trading representatives visit the conservancy and agree on the purchase price with the livestock owners based on attributes of the cattle such as sex, age, weight, and condition. NRT Trading's policy is to buy cows that weigh approximately 220 kilograms and to pay current, fair market value for the animals it purchases. NRT Trading also pays the conservancy a US\$20 fee per animal. The conservancy uses these fees to help to finance its operating and conservation management costs.
- **Stage 4 – Fattening:** NRT Trading treks the cattle to the Lewa Wildlife Conservancy, where they are quarantined for 6 weeks to ensure they are disease-free. From Lewa, the cattle move to one of several private ranches, including Ol Pejeta and El Karama, where they are grazed and fattened to a weight of 330 or more kilos. This process usually takes between three and nine months. NRT Trading pays its partner ranches a monthly grazing fee for each cow to cover the cost of grass, veterinary services, and herders.

- **Stage 5 – Sale:** NRT Trading sells the cattle to markets, mainly in Nairobi, where there is strong demand and good prices for large, high quality steers and beef carcasses. Under normal circumstances, the price that LTM receives for its 330+ kg cattle is sufficient to cover the cost of purchase, fattening, transport, management overhead, conservancy contributions, and a small profit margin. This profit is used to cover grass banking and drought contingency planning, to increase the number of cattle traded, and to work with the conservancies to improve animal husbandry and rangelands management.

The financial value created through this transaction is thereby shared among the community livestock owners, participating NRT conservancies, and NRT Trading. LTM aims to achieve the following:

- Contribute to the herders' and conservancies' operational budgets by paying a fair market price for cattle, which they may struggle to extract from middlemen in often unregulated regional cattle markets;
- Contribute to the county operational budget by paying livestock tax (cess);
- Further contribute by providing community conservancies with a fee for each cow sold, enabling an elected conservancy board to determine how those funds are reinvested into schools, security, water pumps, and health care;
- Introduce commercial livestock trading to local communities by encouraging better production systems and management at a large-scale level.

Although LTM has hit some unexpected bumps along the road, NRT Trading has learned many lessons and continues to tweak the business model accordingly. In 2016, LTM purchased 2,037 head of cattle at an average price of KSh 31,126 and sold 2,201 head of cattle at an average price of KSh 47,737. While this was enough to generate more than KSh 100 million (roughly US\$1 million) in revenue, NRT Trading failed to generate a profit after factoring in the cost of cattle, conservancy fees, and its own operating and overhead expenses. For 2017, LTM targeted the purchase and sale of approximately 5,000 head of cattle, which would allow it to operate at a net profit by reaching a larger economy of scale.

As this case illustrates, it is crucial that CSOs view their earned income ventures as businesses – not programmes or projects – that can sustain themselves financially.

EARNED INCOME MODEL

- **Livestock profit margin:** NRT Trading makes a financial profit from the difference in price paid for cattle to the community livestock owner and the price NRT Trading receives when it sells the fattened cattle in Nairobi or another market.

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Established infrastructure:** When NRT Trading initiated the LTM business, it recognized that the product – livestock – was already well established as a major cultural and economic resource in Kenya, where there is a high demand for beef, particularly in urban areas, and thus believed that existing livestock trading markets and large-scale meat wholesalers throughout the country would enable LTM to start trading straight away.
- **Plentiful supply:** NRT Trading also believed it would have little difficulty purchasing a large number of cattle from the many pastoralists with vast herds who resided within its member conservancies. However, it did not fully consider certain key cultural, economic, and genetic factors that would influence the quality of the cattle, the quality of the grass on which the cattle graze, and the herders' willingness to part with their cows. (See "risks and assumptions," below.)
- **Available production partners:** For the LTM business, NRT had identified partners with experience and expertise in livestock markets who it believed would be able to fatten its cows for a reasonable fee. It later found that some potential partners demanded significantly higher fees than originally indicated.
- **Market demand:** NRT Trading also believed that customer demand for this product was already proven and established through the livestock markets mentioned above. When LTM started, demand for high-quality livestock in Kenya was high – especially in Nairobi, where hotels and restaurants require beef for guests. However, the business model didn't fully account for important differences between the Boran cattle that are typically traded in Kenyan markets and the Zebu cows herded within its conservancies. Zebu cows tend to be smaller and their beef less tender and marbled, so they typically trade in non-prime markets.

Regulatory environment

- **Trading licenses:** Kenya's trading and veterinary laws permit the trading of livestock, which is governed by a clear set of legal guidelines. These laws provided an existing legal framework within which NRT Trading could operate.

Community and stakeholders

- **Government buy-in:** NRT Trading agreed to pay the county government an additional livestock tax (cess) on all sales, thus building local support for the venture.

- **Unintended impacts:** Early on, the model appeared financially unsustainable, in large part because the prices LTM was paying for cattle were 20-30 percent above local market prices. Combined with the US\$20 conservancy contribution that LTM paid for each cattle purchased, LTM's initial costs were as much as 40 percent more than other traders in the region, an amount that could not be recouped at final sale. The price premiums paid by LTM also had significant, unintended social impacts. Because LTM's prices were so attractive, they created incentives for arbitrage (e.g., traders would buy cows down the road, then sell them to NRT Trading for more money) and prompted so-called "cattle barons" (politically connected, cash-rich cattle owners typically with no land) to drive their cattle onto conservancy lands. Small-scale herders were therefore unable to sell their cattle through LTM, having been forced out of the market by the growing pressure from outsiders. NRT Trading subsequently adapted the business model. It now pays fair current market price to livestock owners and delivers additional value to herders through training, vaccinations, and livestock chipping. These changes reduced the opportunities for arbitrage and still provide enough financial incentive to encourage conservancy sellers without attracting cattle barons in great numbers.
- **Conservancy competition:** As originally envisioned, NRT would annually rank its member conservancies on their rangeland management practices, and NRT Trading would reward top performers with purchases through LTM. In practice, land disputes and drought caused herders from poor performing conservancies to invade those at the top, creating insecurity and making reward-only purchases by LTM difficult or impossible. CSOs should always consider the potential for their business model to create perverse incentives or have unintended consequences.
- **Community perception:** When NRT Trading changed its purchasing practices to pay no higher than market rate, it encountered some initial pushback from disgruntled herders who viewed the LTM business as an NGO with plentiful funding. The communities expected LTM to operate as a charity rather than as a disciplined business. Over time, tension has eased as communities have begun to learn they can earn steadier income over the long run through LTM only if LTM remains sustainable. This illustrates the need for CSOs to clearly communicate to local communities how their earned income venture is aligned with the long-term development needs of the area and its people.

INTERNAL FACTORS

The concept

- **Shared value:** NRT Trading introduces incentives for livestock herders to focus on quality over quantity. Because of its ability to arrange for fattening, processing, and sale of livestock at premium prices in large, centrally located, and well-regulated markets, NRT can – in theory – not only cover its own costs but "share the wealth" with livestock owners and their conservancies. Meanwhile, by encouraging herders to follow responsible grazing, security, and management practices, NRT and NRT Trading facilitate the improvement of rangelands, attracting wildlife, tourism, and additional economic opportunities for local communities.

Marketing plan

- **Early-phase pricing incentives:** During the early years of operation, the price NRT Trading paid to purchase cattle from local herders was not well aligned with current market rates. Although such pricing was not sustainable over the long term, it had the benefit of encouraging early community participation, helping livestock herders to see and experience the benefits of participating in the business. Using either discounts or payment premiums can, in some cases, be a useful tool to attract initial community or customer buy-in.
- **Self-distribution vs. partnerships:** NRT Trading's initial LTM business plan relied heavily on experienced partners to manage, fatten, slaughter, transport, and market their herd. This strategy was intended to enable NRT Trading to maximise its impact in the conservancies without having to build a fully functioning, in-house cattle operation. Unfortunately, many of the early partnership agreements and expectations did not pan out and NRT Trading was forced to take a much more active role in LTM's daily operations and management. This added significant work and costs to LTM, but also built the internal expertise and understanding that LTM needed to adapt its business to changing conditions. By being "in the ring," and needing to create its own sustainable business, NRT Trading has expanded its ability to help others in the region do the same. One lesson was that assessing market demand among customers willing to purchase products is vitally important where no sales or distribution partner exists. Local demand is often preferable, due to decreased transportation costs. However, markets based in major cities or even abroad may be able to pay more for the product. Determining the best possible markets is a key part of the due diligence process.
- **Price sensitivity:** The price premiums that NRT initially paid to community livestock owners proved unsustainable not only due to the basic economics of the business model, but also due to competition. Realising its pricing model was flawed and more closely aligning it with local cattle market prices was crucial to ensure profitability. This illustrates the importance of considering product pricing relative to local and regional competition.

Management and governance

- **Good governance:** NRT is governed by a Board of Directors and includes institutional membership from Kenya Wildlife Service (a public institution), Kenya Forest Service (a public institution), three pioneering private conservancies, the Ministry of Environment and the Ministry of Interior. NRT is accountable to an overarching Council of Elders, which is comprised of the elected chairpersons of all the member community conservancies. This structure includes representatives from all stakeholders, including public and private, thus bringing ownership and empowerment to all groups involved in the earned income model.

- **Management expertise:** NRT Trading employed a team of livestock experts to help manage the programme because it did not have suitable expertise readily available within its own management team. Nevertheless, some of the management team’s early assumptions failed to account for unique circumstances within NRT’s northern Kenya conservancies as well as uncertainties related to LTM’s business partners. Although management expertise is important, a robust due diligence process – including a rigorous assessment of key risks and assumptions – is absolutely essential.
- **Restricted land use:** Terms of the conservancy agreements prevent alternative land uses on the NRT conservancies without express permission of the Board of Directors. This legal protection ultimately acts as a robust barrier to other potential land uses by maintaining the grasslands for livestock grazing only – as opposed to developing renewable energy for example. This illustrates the importance of exercising good governance in the negotiation of terms with stakeholders.

Operations and time-line

- **Secured land:** NRT Trading does not own any land. It relies on buying cattle from the NRT Conservancies and grass from private ranches in Laikipia County. Thus, although the model relies on external suppliers (“buy” vs. “make”), it nevertheless aligns their interests around a common objective. Without securing agreements for grazing livestock under a single management regime, the model would likely have failed due to a lack of control, inconsistent supply, and external competition.
- **Limits on capacity and quality:** Although LTM was founded on the assumption that it would benefit from a plentiful supply of cattle, important limitations exist, including the availability of grass and thus the ability of cows to gain sufficient weight. NRT grazing areas are clearly defined and the availability of grasslands is therefore restricted. Grasslands have a prescribed carrying capacity and the number of livestock each hectare of grass can sustain per annum is limited. If the carrying capacity is exceeded, especially during drought, the grassland deteriorates and becomes unusable. This dynamic not only restricts the number of livestock that can be grazed in the NRT conservancies, it also constrains their ability to gain weight. Market buyers want large cattle of 350 kg or more, a weight that is difficult to attain for many Zebu cows raised in harsh conditions. Thus, LTM has had to become more selective in its own purchasing, buying only those cattle with clear high-weight potential.
- **Logistics and timing:** After purchasing cattle, NRT Trading must “trek” (walk) them to Laikipia County for fattening and finishing. The initial trek can require anywhere from 4 days to 2 weeks, followed by a 6-week quarantine. Then it’s another 4-5 days to Lewa or Ol Pejeta for grazing. These treks are highly dangerous, with cows at risk of growing weak, becoming injured, or being stolen by raiders. LTM even encountered a lion attack that killed seven cows and lost about 18 others when the frightened herd scattered in the night. A CSO’s operations plan and timeline should consider all possible contingencies.

Financial plan

- **Start-up capital:** Businesses of this type often require significant investment at start-up. The US\$7 million secured from NatureVest, along with technical support added to this funding, ensured the business had sufficient working capital to launch at scale. This included animals, all necessary livestock equipment and infrastructure, and a management team and related resources for a minimum 3-year operating period. The risk involved in launching with a large amount of seed funding is that management grows accustomed to having a financial “safety net,” fails to confront the real economics of the business model, and isn’t prepared to adapt when the funding runs out.

RISK MANAGEMENT

Risks and assumptions

- **Flawed assumptions:** In launching the venture, NRT Trading made three key assumptions that proved to be flawed: an endless supply of cattle, plentiful grass for fattening, and a booming market for beef. As the case study shows, the LTM business model missed some important nuances in making these assumptions and had to be refined – in some cases, significantly – to remain viable. This illustrates the importance of identifying risks early, understanding their contingencies, and being prepared to respond.
- **Model sustainability:** Livestock models, as is generally the case with agriculture-based businesses, are completely dependent upon weather and the availability of grass and water to sustain the underlying raw material. This is compounded by natural risks such as disease and drought; market risks such as an oversupply of low-grade, low-cost beef from competitors; and political risks catalysing foreign livestock invasions. Mitigating these events, for example by vaccinating livestock, reduces the CSO’s overall risk, but adds cost. As this case illustrates, natural product-based earned income models can quickly become financially vulnerable. Thus, the overall, long-term financial sustainability of such models should generally be considered as moderate.
- **Standards enforcement:** A key underlying assumption of the model is that NRT grazing, security, and management standards will be strictly and consistently enforced, thus promoting a healthy grassland ecosystem that can better support communities, livestock, wildlife, and even tourism over the long term. LTM has encountered cultural and economic hurdles in meeting this objective. For example, herders have been conditioned to value animals over grass, especially in an environment characterized by “scarcity economics,” where the focus is placed on what you have rather than what you want. This dynamic creates potential long-term risks if NRT Trading can’t shift local attitudes to adequately address overgrazing and overstocking, which diminish the quality of the cattle. If standards can’t be enforced, there is a risk of this cycle never being broken and the model will eventually fall apart.



SELLING PRODUCTS | CASE STUDY 2

ORGANISATION:
**THE ASSOCIATION OF THE
FAMILIES OF BALOGBO, PA'A
AND BAMOUH OF NGOLA-ACHIP,
CAMEROON**

GOODS BEING SOLD:
TIMBER

DESCRIPTION⁹

In 1994, Cameroon amended its Forestry Law with the aim of improving forest and timber access and harvesting rights for village communities.¹⁰ The objective was to “increase the participation of local populations in forest conservation and management in order to contribute to raising their living standards.” Specifically, the law “seeks to secure substantial benefits for village communities as well as to motivate them to better protect forest cover.”¹¹

This law enabled the formation of Community Forests, which are forest areas not exceeding 5,000 hectares and reserved exclusively for village communities. Community Forests aim to promote conservation while also supporting sustainable community-based exploitation of forest resources as a way of stimulating the local economy. Legally they can be used for low-intensity exploitation and food production within zones reserved for these purposes.

9. Source: <http://rightsandresources.org/wp-content/exported-pdf/ngolaachipcamerooncfecasestudy/powerpoint.pdf>.

10. Specifically, this was achieved through the Cameroonian Forestry Law No. 94/01 of 20 January 1994 and its decree of implementation, 95/531PM of 23 August 1995.

11. Source: <http://www.rightsandresources.org/wp-content/exported-pdf/ngolaachipcamerooncfecasestudy.pdf>.

In order to legally form and designate a Community Forest, communities living in forest areas are required to:

1. **Form a legal entity:** Communities must form a legal association or Common Initiative Group (CIG) to make decisions on forest management, consumption, and protection, as well as to ensure that a Simple Management Plan (SMP) is developed and implemented correctly;
2. **Conduct an inventory:** Communities must conduct an inventory to determine what forest resources exist in the proposed Community Forest;
3. **Establish an implementation plan:** Communities must design an SMP describing how they plan to use and protect the Community Forest. The cost of developing an SMP was estimated at between FCFA 7-15 million in 2001 (approximately US\$9,500-US\$20,000).

In 1998, four communities, Ngola, Achip, Ndam, and Ngola-Baka, undertook the process to form a CIG and create a Community Forest. After completing the steps above, the CIG was legally registered in 2001 as the Association of the Families of Balogbo, Pa'a and Bamouh of Ngola-Achip ("the Association"). This process was supported by a Dutch NGO, SNV,¹² together with a grant to develop an SMP, also from SNV, and a loan of FCFA 2 million (approximately US\$2,600) from the neighbouring village of Kongo, which was already exploiting timber from an established Community Forest.

Representing approximately 1,050 community inhabitants across four villages, the Association formed a Community Forest of 4,200 hectares. Each village appointed a community member to a board led by the Association president. This board was responsible for overseeing implementation and governance of the SMP in line with the Association's constitution¹³ (including management of village funds received from logging revenue as well as planning, implementing, and monitoring village development projects) and representing the member villages in all aspects concerning management of the Community Forest (e.g., negotiations with loggers, government, and other stakeholders). Each board member was elected by ballot for a 5-year term by community members.

The Association's SMP listed activities the community planned to carry out over a period of five years, including sustainable forest management and activities to improve the livelihoods of villagers. The SMP stipulated that:

- The main product from the community forest would be timber;
- The villagers were unable to harvest the timber themselves because of the large financial investment required to purchase equipment and transport the timber. Accordingly, the Association signed 5-year extraction contracts with four national small-scale logging companies to undertake the harvest and sale of the timber;
- Trees were sold at a price based on the volume of the tree when logged. From 2001 to 2003, this was fixed at FCFA 24,000/m³ (approximately US\$32) and in 2004 this increased to a fixed rate of FCFA 35,000/m³ (approximately US\$47);

¹² See: www.snv.org.

¹³ The Constitution outlined the objectives, goals, and responsibilities of each stakeholder in the organisation.

- Each professional forestry company involved would cut and process the timber into planks before transporting it to local timber markets. All harvesting, processing, transport, and sales costs were paid for by the forestry company.

From 2001-2004, the Association generated FCFA 34,000,000 (approximately US\$45,000) of income from payments made by the logging companies, and used this money to:

- Build and improve 72 houses in the communities that were members of the Association;
- Provide 94 educational grants to students from the communities to buy books and pay for school fees;
- Purchase medical drugs for a communal Village Health Centre;
- Purchase two televisions, a generator, and a satellite dish for the communal Health Centre.

Unfortunately, this earned income model eventually failed for reasons highlighted below.

EARNED INCOME MODEL

- **Timber sales:** The Association earned income from the Community Forest by selling timber. The Association entered into contracts with four private, national small-scale forestry companies to extract timber from the Community Forest.¹⁴ These logging companies paid the Association a fixed price per cubic metre of timber.

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Robust, competitive market:** Located in the Congo Basin, Cameroon is home to almost 50 million hectares of forest, which plays a major role in the country's economic development. The country is a significant exporter of timber to international markets and home to a thriving (though less formally established) domestic market.

Regulatory environment

- **Legal foundation:** Legislation provided a strong legal basis and clear process for establishing Community Forests, decentralising forest resource management to local communities. Before this platform, there was no legal basis for communities (including the Association) to purchase or secure their own forest assets.

¹⁴ Including: L'Homage, Investissement, Service; Passerelle; Sicogec; and Bexdan.

Community and stakeholders

- **Community conflicts:** Once the earned income model was implemented, some villages received disproportionately more benefits from revenues than other villages, causing divisions. For example, a greater proportion of houses were improved in some communities than in others. CSOs should ensure the benefits from an earned income model are shared in a way that is both transparent and equitable. This requires effective governance that is attuned to the voices of its constituencies.

INTERNAL FACTORS

The concept

- **Community Forest:** The Association planned to employ a relatively new legal structure to develop sustainable community forestry that would support a thriving local economy. However, due to insufficient market research, limited financial planning, and inexperienced leadership, the venture never fulfilled its promise.

Marketing plan

- **Pricing and partnerships:** The Association entered into poorly negotiated contracts with logging companies, resulting in timber harvesting prices that were set too low. Also, poorly defined designated logging areas allowed logging companies to overexploit the forest before timber quotas and felling zones could be set. This highlights the importance of engaging experienced experts and lawyers when negotiating contracts that will ultimately determine the long-term viability of the earned income model.

Management and governance

- **Strong governance and management guidelines:** The law and process determining the structure and governance of CIGs, and SMPs was clear and comprehensive. Conceptually, this provided a strong management platform for the communities to administer the Community Forest, engage with private sector operating partners, and raise the necessary start-up funding required to initiate the model.
- **Leadership capacity:** Despite strong foundations for implementing the earned income model, a lack of practical experience and technical training within the Association resulted in the venture failing for reasons which more experienced management teams could potentially have prevented (e.g., pricing strategy and contract negotiations). One solution may have been to bring experienced management into the Association from outside the community, or to contract a third-party private operator to manage the business with a mandate to eventually transition management to the community once capacity had been developed to a suitable level. However, this would have required additional up-front financing, which was not available to the communities or Association at the time.

Operations and timeline

- **Operational flexibility:** The SMP covered a relatively short 5-year management and governance plan. This is a sensible period of time that allows an organisation to revisit its objectives and provide for innovation and change.
- **Outsourcing of expertise:** Extracting the product – in this case timber – is an expensive and specialised skill requiring experienced professionals and machinery. Recognising these skills and equipment were not available within the local community and would be expensive to develop or purchase, the Association employed third-party professionals to implement core activities. Although this was likely a smart choice, a lack of attention to detail in contracting with the third parties eventually doomed the venture.

Financial plan

- **Start-up funding:** The venture relied on significant donor funding to pay for registering the Community Forest and developing the SMP. This demonstrates the value for CSOs of leveraging donor and NGO support and funding when initiating an earned income model. Although this represents a one-time cost, a CSO should always ensure it has done its due diligence to fully evaluate risks and opportunities before making a substantial investment in an earned income model.
- **Lack of earned income diversification:** The venture relied on a single revenue driver: timber. However, in addition to timber, the Community Forest's SMP permitted the harvesting and selling of non-timber forest products (NTFPs), which can contribute to forest conservation due to their relatively minor ecological impacts. However, the communities lacked the required funds and knowledge to process NTFPs into marketable products. Also, cacao and coffee, normally high-value cash crops, could have been grown by the communities but weren't due to a lack of funding, agricultural experience with these particular crops, and sales knowledge. The Association could have used some of the funds received from timber sales to build this capacity and develop these complementary revenue streams, but it chose not to. Arguably, investing in NTFP or cash crop capacity early on could have increased and diversified the Association's earned income and enabled it, at a later date, to allocate more funds towards community initiatives than what they were able to allocate based on timber sales alone.
- **Financial sustainability:** Ultimately, in this case, the prices negotiated in third-party operating contracts – and the establishment of these contracts before clear timber quotas and felling zones could be set – resulted in the venture failing. However, such problems can be anticipated by developing robust financial projections with qualified experts. When financial expertise is not present within a CSO, it should always consult with external advisors in performing its due diligence and business planning.

RISK MANAGEMENT

Risks and assumptions

- **Pricing risk:** The Association negotiated a fixed up-front fee per cubic metre of timber, thus guaranteeing the payment rate and price for the total forest area controlled by the community. Knowing this value enabled more precise financial planning by reducing the Association's exposure to uncertainty around harvesting costs (e.g., fluctuating fuel prices). However, note that this certainty comes at a cost of its own – i.e., fixed fees in some cases may prevent the CSO from reaping the benefits that can arise from market price increases. In this case, if timber prices went up significantly, the Association would not benefit because its sale price was already determined.



SELLING PRODUCTS | CASE STUDY 3

ORGANISATION:
**TROPICAL FORESTS AND
RURAL DEVELOPMENT (TF-RD),
CAMEROON**

GOODS BEING SOLD:
**NON-TIMBER FOREST PRODUCTS
(NTFP)**

WWW.IUCN.ORG/FR/CONTENT/FEVRIER-2015-CAMEROUN-AIMÉ-EPANDA-PRÉSIDENT-DE-LONG-TROPICAL-FOREST-AND-RURAL-DEVELOPMENT-TF

WWW.LINKEDIN.COM/COMPANY/11037330/

DESCRIPTION

Tropical Forests and Rural Development (TF-RD) is a non-profit CSO working in lowland forest zones of the Dja Biosphere Reserve in Cameroon. The 529,000 hectares of protected forest are home to Bantu and indigenous communities, with approximately 5,000 people (mostly Baka pygmies) living inside the reserve and another 25,000 or so nearby who depend on its resources. The reserve boasts a rich biodiversity made up of more than 109 mammal species, including lowland gorillas, chimpanzees, forest elephants, 360 bird species including the Bald Picatharte, Red-tailed Gray Parrot, and Dja Warbler, and 62 species of fish. Additionally, 207 species of trees divided into 151 genera are also present in the reserve.

TF-RD focuses on community development through a landscape approach. Providing access to economic development and employment opportunities for local communities via sustainable management of the region's natural resources is its main strategy. It also provides educational programmes, such as the Ambulant Bus project, which educates children and communities living on the outskirts of the forest in conservation issues. To date 725 children, 48 teachers, 48 parents, and 24 eco-guards (who work with local authorities to protect the habitat) have benefitted from the programme.

In 2013 and with financial and technical support from IUCN,¹⁵ TF-RD established a project working with local communities to improve cocoa production on the northern periphery of the Dja Biosphere Reserve. The project encouraged the establishment of cocoa-based agro-forests under the forest canopy, thus reducing clear-cut deforestation for cocoa plantations, and increasing production per hectare by an estimated 70 percent. TF-RD provided technical support to participating communities and helped them to sell their products.

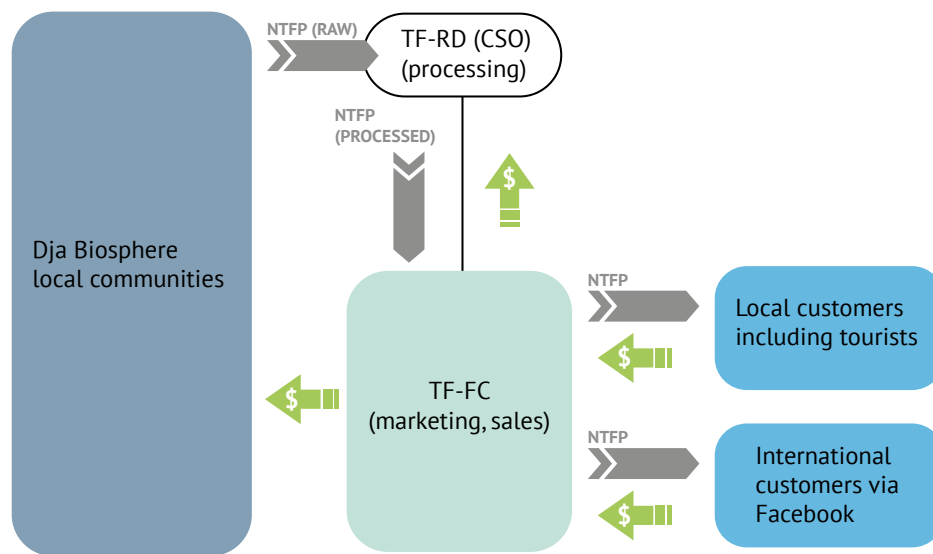
In 2017, TF-RD established a separate social enterprise, Tropical Forests Food and Cosmetics (TF-FC). Based in Yaoundé and registered in 2017, TF-FC specialises in selling non-timber-forest-products (NTFP) and by-products, including 100 percent natural cocoa butter, Moabi butter, shea butter, coconut oil, wild mango butter, Allanblackia and Mbalaka oil, and black soap manufactured from raw NTFP collected from community members living in the Dja Biosphere. The community partially processes certain products, but the main processing management and associated costs are borne by TF-RD.

Importantly, TF-FC employs a specialist manager with experience in commercialising and marketing processed NTFP in Cameroon to coordinate this activity. This expertise did not exist internally and would have taken considerable time, effort, and risk to build organically within the CSO.

TF-FC provides an intermediary sales point for NTFP collected by communities that collaborate with and receive support from TF-RD. The idea is that by establishing TF-FC, TF-RD saves a lot of time, costs, and other resources involved in marketing, and selling products. In summary:

- **TF-RD:** Non-profit CSO advising on and providing support to community development, education, sustainable natural resource management, and livelihood prospects;
- **TF-FC:** Founded by TF-RD to promote and commercialise products sourced from communities they support.

¹⁵ See: <https://www.iucn.org>.

FIGURE 2. TROPICAL FORESTS FOOD AND COSMETICS

Since commencing, TF-RD's agro-forestry initiative has engaged approximately 150 hectares of agro-forests containing nearly 155,000 cocoa, 75,000 plantain, and about 1,500 fruit trees. Although TF-FC is at an early stage of development¹⁶, it plans to distribute the revenue it generates towards:

- **TF-FC costs:** Financing ongoing operating costs of TF-FC;
- **Community development initiatives:** Financing new community-based projects, including those capable of supplying products to TF-FC, thus building community capacity and income (TF-FC will support the value chain of its products to ensure their quality);
- **TF-RD:** A medium- to long-term objective for this venture is to channel revenue or earned income generated by TF-FC into TF-RD to support its operating costs and, in particular, staff salaries. This forms the basis of the earned income model.¹⁷

This model illustrates a dynamic whereby a non-profit CSO established a separate legal entity (Economic Interest Group, EIG) mandated to develop earned income activities. In turn, generated revenues will be paid into the non-profit entity, which may be used to cover operating overhead costs.

EARNED INCOME MODEL

- **Sale of NTFP:** TF-RD works with local communities to collect NTFP from the Dja Biosphere. These by-products are processed and manufactured by TF-RD and handed over to TF-FC, which pays the community a transparent market price. TF-FC subsequently markets and sells the products both locally and internationally via marketing on its Facebook page. Eventually, the profits generated by TF-FC on sales margins will be channelled back into community projects and TF-RD. Thus, it is a social enterprise that aims to ensure sustainable community development.

¹⁶ Specific data on financial payments and revenue for TF-FC is not available due to the early stage of this model.

¹⁷ At the end of 2017, no payments had yet been made from TF-FC to TF-RD, but as revenues increase this mechanism is expected to be implemented.

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Competition for suppliers:** In order to maintain good relationships with supplying communities, TF-RD via TF-FC will need to sell enough products to become a regular and consistent buyer of NTFP. If the amount of products bought from communities decreases, community members may lose confidence in TF-RD and seek alternative markets to sell their products.
- **Competition for customers:** Meanwhile, competitors may not only vie with TF-RD for valuable supplier contracts, they may also be able to either undercut TF-FC's pricing to customers or squeeze TF-FC out of the market through more effective distribution.
- **Single buyer dependence:** Although not evident within this case study, a CSO should be cautious to not rely on a single buyer of products. In the event the buyer can no longer operate or purchase products, the CSO and the communities they support could suffer.

Community and stakeholders

- **Community buy-in:** Due to the strong existing relationships between communities and TF-RD, TF-FC is able to access products from these groups through a trusted intermediary, thus gaining preferential access and negotiation leverage. This brokering service is a way in which other CSOs could build earned income – by negotiating a margin on all sales made between a buyer of products and the communities that a CSO is working with. This dynamic must not, however, be abused or exploited.
- **Investing in the community:** In establishing a trading partner, TF-RD as a CSO ensures the communities it commits valuable resources to have a secure, transparent, and reliable trading partner to support further community development.

INTERNAL FACTORS

The concept

- **Shared value:** TF-RD recognised a mutually beneficial opportunity to build on the trusted relationships it had already established with local communities. By pooling their efforts and forming a separate entity to purchase, package, market, and sell local products, it could produce greater results for its supported communities than they could achieve on their own, delivering more products to more customers across a greater geographic area.

Marketing plan

- **Brand appeal:** TF-RD is able to take advantage of its positive story of working directly with local communities to improve the marketing appeal of TF-FC products.
- **Sales and marketing:** Local communities aren't able to support large-scale production of most NTFP products, creating challenges for sales and distribution. Experienced sales and marketing expertise are therefore required to identify and negotiate with distribution channels willing to receive and promote products only available in low volumes. When handled successfully, finite supply can be branded as an "exclusive" product and therefore sold at a higher price due to the value inherent in its scarcity.
- **Building awareness:** Although TF-FC's brand narrative is strong, the company currently has no formal website or online sales platform – other than Facebook. This will impact the business by:
 - **Reducing transparency:** If clients cannot see the products and their prices online, they may be reluctant to buy them;
 - **Limiting the market:** By not selling the products online, the business risks losing potential customers from other parts of Cameroon and international markets;
 - **Reducing sales volume:** Providing no online sales platform means the business relies on physically selling products locally. This restricts potential sales volume and thus revenue.

Management and governance

- **Organisational structure:** In this case, the CSO established a separate legal entity to undertake the sale of products sourced from communities where the CSO operates. This structure not only addresses legal and tax issues, but also likely reduces the risk of mission drift. This is because the trading entity oversees all marketing and other earned income-related activities, while the CSO continues to focus on its community development work.
- **Management expertise:** Rather than attempting to develop internal expertise, TF-FC hired an experienced manager to lead the marketing and sale of NTFP. When the necessary expertise is not readily available within a CSO, it should weigh the costs and benefits—in terms of time, effort, and risk—to build that capacity within the organisation versus hiring from the outside.
- **Management capacity:** As of September 2017, TF-FC employed just three people, limiting the speed at which the company can grow and develop key infrastructure, such as a sales and marketing platform as well as new suppliers and products.

Operations and timeline

- **Processing:** The majority of products sold by TF-FC are processed by TF-RD from raw materials produced by the communities. By purchasing and selling NTFP that have already been processed, TF-FC reduces its costs. However, this arrangement assumes specialised processing equipment and knowledge are available at a community level to supply such products to TF-FC. This is important, as processed products generally can be sold at a higher value relative to raw materials.
- **Product control:** TF-FC is able to advise TF-RD on the quality of products they require, and TF-RD is subsequently able to work with communities to deliver consistently high-quality products that meet customer expectations. In return, the economic value of products increases. TF-FC keeps a watchful eye on the first processing of products at the village level and on the second processing at the platform level and can make investments at various levels of the value chain to guarantee the quality of finished products.

Financial plan

- **Donor support:** IUCN provided technical resources and funding for TF-RD to establish TF-FC. This demonstrates the value for CSOs of leveraging donor and NGO support and funding when initiating an earned income model.
- **Profit margin / Sufficient funds:** It is too early to determine if TF-FC will generate a sufficient profit margin to make meaningful payments to TF-RD and therefore a significant difference to the organisation's income. When looking at earned income opportunities, CSOs should bear in mind that most ventures take several years to establish themselves as financially self-sufficient, requiring not only patience but adequate funding.
- **Financial sustainability:** During TF-FC's start-up phase, early indications were positive that local communities would eventually be able to sustainably supply enough raw materials to create products which, through a strong marketing story and sales strategy, could be sold at sufficient volume. Due to inherent risks (see below), however, the overall long-term financial sustainability of this natural product-based venture should be considered moderate.

RISK MANAGEMENT

Risks and assumptions

- **Market price and demand volatility:** International demand and prices for some commodity-based products, such as coconut oil, may vary and therefore impact the profitability of the model if international prices drop.
- **Other risk exposures:** Like the NRT Trading case study, this natural product-based model is exposed to additional risks resulting from climate change, disease, community disengagement, and political insecurity.

SELLING SERVICES

DESCRIPTION

Selling intangible goods to generate earned income. Examples include professional consulting advice, organising events, writing research reports, and providing training.

CORE ATTRIBUTES

ADVANTAGES

- **Raising your profile:** Selling services can improve an organisation's image and visibility.
- **Growing your network:** Services provide a mechanism to foster new relationships (including potential new funding opportunities) and increase awareness about the CSO and its ambitions.
- **Customization:** While products can be difficult – not to mention expensive – to customize, services can more easily be tailored to the needs of the client. Focusing on specific client needs also allows a CSO to highlight the unique value that it can provide.

DISADVANTAGES

- **Strain on capacity:** Selling services requires the capability and capacity to acquire new customers and maintain customer relationships. This includes identifying different client groups to sell services to – NGOs, private businesses, government groups, communities or other stakeholders – as well as targeting the services to the specific needs of these potential clients.
- **Skill barriers:** Some clients may benefit from the skills of the CSO, but also demand expertise not apparent or available within the organisation. This could require the short-term recruitment of high-skilled workers to provide certain services which could impact the profit margin.
- **Performance evaluation:** The organisation must be able to demonstrate it has delivered the service that was paid for to the expected standard of quality. Unlike the selling of a tangible good where the buyer has the actual product to evaluate, with a professional service there is a level of mystique involved in the evaluation process and often the buyer is required to make full or partial payment prior to experiencing the service on offer. This can be overcome by staggering payments through the service delivery – for example 25 percent upfront, 25 percent mid-way through the project, and 50 percent upon completion.
- **Payment management:** Regular billing, which can be time consuming and/or involve investment in systems, may be required.

RISKS

- **Mission drift:** The CSO may lose sight of its core mission.
- **Reputation:** If the work undertaken is not executed well, it may result in financial and/or reputational risk, potentially impacting the core not-for-profit relationships and work of the CSO.
- **Adaptation:** The CSO must be able to adapt its structure and processes to enable the selling of services at a professional level. This can be a major advantage for building capacity but can come at a considerable cost – in terms of both time and money – to the CSO.



SELLING SERVICES | CASE STUDY 4

ORGANISATION:
**CENTRE D'APPUI À LA GESTION
DURABLE DES FORÊTS
TROPICALES**

SERVICE BEING SOLD:
CONSULTANCY SERVICES

WWW.FACEBOOK.COM/CAGDFT/

DESCRIPTION

Centre d'Appui à la Gestion Durable des Forêts Tropicales (CAGDFT), founded in 2011, is a CSO located in Kinshasa in the Democratic Republic of Congo. In English, the name translates as the Centre for Support to the Sustainable Management of Tropical Forests.

Its overall mission is “to promote the well-being of local communities and indigenous people through capacity building and direct support of different actors involved in forest management.” CAGDFT states as its objectives as follows:

- To support different actors in promoting the preservation and use of natural resources in at least five forest concessions managed by local communities, indigenous peoples, and small-scale operators;
- To work with the actors concerned to restore the rights and interests of at least five local and indigenous communities;

- To strengthen the capacities of at least 500 actors on forest governance in six target provinces;
- To become a credible and reputable organisation on issues of community-based forest management.

This case study is focused on CAGDFT's consulting work in defence of land rights and other interests of local forest communities and indigenous peoples.

As a CSO, CAGDFT has developed considerable local expertise and knowledge on:

- Forest governance;
- Combatting illegal logging;
- Action research;
- Formalization of artisanal wood exploitation; and
- Community forestry and building community benefits from sustainable forest use and conservation.

Using this knowledge, CAGDFT is able to offer a variety of professional consultancy services, including:

- **Performing research:** Undertaking research on behalf of third parties and developing written reports. For example, CAGDFT contributed to a 2014 Chatham House study on *Illegal Logging in the Democratic Republic of the Congo* and to a 2016 multi-organisational policy briefing titled *Civil Society Briefing on the Threat of Lifting the Logging Moratorium in Democratic Republic of Congo*.¹⁸
- **Facilitating workshops:** Coordinating and facilitating workshops and presentations on the topics outlined above for clients, including:
 - NGOs – international, national, and local; and
 - Research institutions.

To date, CAGDFT has primarily undertaken consultancies on an ad hoc basis as a means of generating unrestricted funding for the organisation. Going forward, however, it hopes to more fully develop consulting services as a self-financing strategy, drawing on its organisational expertise and what it has learned from prior ad hoc engagements.

EARNED INCOME MODEL

- **Consultancy services:** CAGDFT is attempting to generate earned income by selling professional consulting advice, performing research, and facilitating workshops related to its key area of focus: sustainable forest management. It attempts to set prices such that revenues generated will cover the costs of the engagement while also contributing a profit margin toward the CSO's overhead costs.

¹⁸ See: <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/201404DRC.pdf> and <http://www.greenpeace.org/africa/Global/africa/publications/forests/2016/2016%2003%2001%20Policy%20Brief%20on%20DRC%20logging%20moratorium%20FINAL%20ENG.pdf>

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Clear client base:** Through prior ad hoc consulting engagements, CAGDFT has developed a clear understanding of the target market for its consulting offerings. The client base generally includes foreign organisations – for example Rainforest Foundation UK (RFUK), the World Wildlife Fund (WWF), Chatham House, Southern Africa Resource Watch (SARW), Greenpeace DRC, and the RRI Tenure Facility. These clients typically have larger budgets and less local expertise than NGOs or public partners located in the immediate community or region.
- **Competition:** It is important for CSOs to know if other consultants are offering similar professional services in their field or area of operations. With this understanding, they can more effectively design niche specialties and unique skills that will make their services more attractive and competitive. Given its seven years of experience and relationship-building in one of the world's largest rainforest nations, CAGDFT is well positioned to outperform potential competition and remain at the top of the NGO and client selection pile.

Regulatory environment

- **The importance of existing expertise:** Because of its extensive work in forest management, CAGDFT has a well-established understanding of the often-complex technical and legal issues surrounding community forests, logging, and the artisanal branch of the timber industry. This expertise represents an additional selling point for the CSO's consultancy services because the majority of CAGDFT's potential clients would otherwise require considerable time and other resources to develop it on their own.

Community and stakeholders

- **Relationship management:** CAGDFT's existing relationships with local and indigenous communities also represent a valuable asset – one it must safeguard in accepting consultancy work. Each consulting engagement must be assessed in terms of how it might impact the CSO's engagement with key stakeholders. Once the project ends and the client is gone, CAGDFT must continue to have a strong working rapport with the communities in which it operates.

INTERNAL FACTORS

The concept

- **Selling needed expertise:** Deforestation and forest destruction are subjects of increasing global scrutiny as leading contributors to climate disruption, leading to a growing interest in sustainable forest management practices that can benefit both the environment and local and

indigenous communities at the same time. Within this field, CAGDFT has identified the areas in which it has considerable skills and experience, and it has attempted to tailor its consulting offerings to focus on this expertise. The organisation believes it has the capacity to take on additional work, and the unrestricted income from these engagements will not only cover costs but also contribute to the CSO's overhead.

Marketing plan

- **Identifying new contacts:** Although CAGDFT has built a solid reputation based on its proven track record of high-quality work, it has struggled to find new opportunities outside the organisation's existing network of contacts. Marketing consultancy services to a wider market can be time-consuming and costly.
- **Qualifications and experience:** Clients often require professional qualifications from the consultants they hire – for example a university-grade degree in the topic, or a minimum number of years of professional experience. Generally, all consultants need to provide a high-quality *curriculum vitae* (CV) to secure work. To better meet the needs of its clients, CAGDFT – drawing on guidance and advice from a board member who is focused on capacity building – regularly identifies staff needs and relevant training programmes to develop its existing staff.
- **Pricing strategy:** Donor-financed projects often place strict restrictions on the daily rates that may be paid to staff and especially to senior project managers. Professional consultancy services, on the other hand, are often chargeable at a higher rate per day or per project, depending on the client – e.g., private-sector clients are often able to pay more. CAGDFT is hopeful that by pursuing a consulting-based strategy with greater pricing flexibility, it can reduce its dependency on grant funding for such things as office space and operating costs.
- **Marketing collateral:** CAGDFT employs a variety of different communications channels to raise its public profile, including brochures, mailing lists, social media, and banners and posters for display during workshops and other events. It is also in the process of developing a website and a magazine that will be published three times a year. When launching a service-based venture, a CSO will need to build a set of marketing materials highlighting its experience and track record. These materials generally require, at a minimum, a marketing brochure, a PowerPoint presentation, and a high-quality website describing the CSO, its team, their experience, and projects completed to date.

Management and governance

- **Organisational structure:** A CSO may need to establish a for-profit legal entity, owned by the CSO, to handle consultancy services. In such a model:
 - Individuals or teams within the CSO could be contracted on a professional basis (i.e., via a paid contract through the consulting entity) to provide advisory services to third-party clients;

- Income earned on the contract by the consulting entity would then cover the costs of those consultants, thus paying some of the operating overhead expenses of the parent CSO, while also channelling any profits back into the CSO, normally as a donation.
- **Human resource management:** CSOs often employ highly educated and experienced staff working on donor-financed projects. Building a consulting model enables those human resources to be deployed outside of project-based work, which can often be restrictive, to instead focus on more creative or challenging work. This can lead, in turn, to improved recruitment, professional development, and retention of employees.

Operations and timeline

- **Efficient time management:** Because the CAGDFT staff has developed a mastery of its subject matter, certain consultancy work – for example, workshops and presentations – is likely to require a relatively minor investment of time (for example, designing a PowerPoint presentation) and minimal follow-up afterwards. Such engagements represent a highly efficient way to earn revenue.
- **Less administration:** Donor-funded work often involves a considerable amount of administration and reporting to communicate a programme, project, or gift's impact. By contrast, professional consultancy contracts generally require less stewardship and little administrative overhead, making them more efficient and less time consuming.

Financial plan

- **Short term cash-flow and work planning:** Longer-term engagements can provide important stability, but much consulting work is short-term in nature. This can make planning ahead difficult, because demand, time commitments, and generated cash flows are less predictable and often variable. Sometimes, short-term opportunities may be plentiful and lucrative; other times they may not. CSOs must ensure this uncertainty does not affect the organisation's planning and ability to carry out its core work effectively.
- **Expanding the funding base:** In offering professional consulting services, CSOs are able to access clients not typically associated with donor projects – for example, corporate businesses working in or around landscapes where the CSO operates. For instance, the Congolese government's Ministry of Environment has engaged CAGDFT to offer support around certain key themes related to forest governance.

RISK MANAGEMENT

Risks and assumptions

- **Available bandwidth:** A key assumption of CAGDFT is that it has the organisational capacity to take on extra work. If this proves false, the organisation risks delivering poor-quality service to a consulting client, which could have significant reputational and financial impacts – including on CAGDFT's core not-for-profit work.

PROPERTY LEASES

DESCRIPTION

Leasing land or property controlled by the CSO or its partners to a third party in return for a lease or rental fee.

CORE ATTRIBUTES

ADVANTAGES

- **Using assets:** Land or property that is not being used may be a wasted asset. Instead of letting it sit idle, renting it out through short-term or long-term leases can be a way to generate revenue.
- **Tax offsets:** Leasing expenses may be considered as operating expenses and therefore may be tax deductible.
- **Earned income security:** Steady and predictable income can be secured through fixed-term rental or lease agreements over the medium to long term.
- **Asset appreciation:** If the condition of the underlying asset (e.g., land) remains unimpaired, the owning CSO will be sitting on a capital asset that can increase in value when the market is favourable.
- **Attracting beneficial stakeholders:** Secured land tenure often attracts other stakeholders capable of bringing indirect benefits, such as investment in community livelihood projects or other earned income opportunities. (See Case Study 5 for examples.)

DISADVANTAGES

Upfront and ongoing costs: Purchasing land to subsequently lease requires significant financing, as will any restoration work required to make the property suitable for leasing and to maintain its condition.

- **Lease liability:** The responsibility and liability for the land or property will generally remain with the lessor (the CSO). The lessor must therefore constantly be aware of and manage all their liabilities and responsibilities – this includes insuring the property for damage.

Lessee and Lessor: *A lessee is the person or entity who rents land or property from a lessor, who is typically the property owner. The lessee is also known as the “tenant.” By law, both parties must uphold the specific terms defined in the lease agreement.*

- **Unexpected expenses:** Not all expenses can be anticipated, and in such cases they can place a considerable financial burden on a CSO. Insurance can partly mitigate unforeseen events such as floods, but other uncovered costs (e.g., normal maintenance) are likely to arise.
- **Unpredictable tenants:** Even when properly vetted, tenants may surprise the lessor. Bad tenants may damage the property, not leave when requested, fail to pay rent on time, or create legal problems such as contesting the terms of a lease.

RISKS

- **Mission alignment:** When a CSO leases property – in particular land – it should ensure the property is used and exploited by the renter in a way that is aligned with the CSO’s own interests and those of the local community. This is especially true when the community is still living on or using the land – or adjacent land – under the conditions of the rental agreement.
- **Damage and security:** A donated property or one purchased with donor funds could be damaged beyond repair, resulting in a reputational risk for the CSO – i.e., it is perceived to be negligent or careless in managing the property. The purchase of land or other property requires its own due diligence, and CSOs may benefit from consultation with experienced real estate professionals.
- **Legal liability:** If a tenant is injured as a result of negligence or property disrepair, the CSO could face a legal liability.
- **Depreciation:** If not well maintained, the underlying financial value of the property may drop, causing capital losses for the CSO.
- **Resource costs:** The time, effort, and resources involved in managing the property lease could outweigh the benefits, including the earned income profit.
- **Utilities:** Most renters of a property will expect consistent access to utilities and facilities, including water, electricity, and ablutions. Providing these services, including backup energy generators, could be expensive, as is their maintenance. Again, the costs of providing such services may outweigh the benefits, including the profit margin, of the property lease.
- **Defining the property boundary:** If the property boundary is not properly defined in the lease agreement, the CSO could be exposed to risks such as illegal settlements being developed on leased land. Lease agreements should always include maps clearly defining the boundary and what is permitted within it.
- **Tax implications:** In the event a lease mechanism is no longer desired, selling a property can raise a considerable tax liability for the CSO. Expert tax and legal advice should always be sought for all property-related transactions.



PROPERTY LEASES | CASE STUDY 5

ORGANISATION:
**MARA NABOISHO CONSERVANCY,
MAASAI MARA, KENYA**

PROPERTY LEASED:
**GROUP CONSERVANCY – PROPERTY
LEASE AND LAND USE RIGHTS**

WWW.NABOISHO.COM

WWW.MAASAIMARACONSERVANCIES.CO.KE

DESCRIPTION¹⁹

Created in 2010, the Mara Naboisho Conservancy (“Naboisho”) is a partnership between 554 Maasai landowners and six of Africa’s leading tourism operators.²⁰ Together, these landowners and tourism partners collaborated to form the 50,000-acre Naboisho group conservancy, made up of critical wildlife habitat bordering Kenya’s northern Maasai Mara National Reserve and forming part of the Greater Mara Ecosystem on a piece of land formally known as the Koyaki-Lemek Group Ranch. Traditional pastoral livestock was previously the main source of livelihood and income for the majority of landowners who leased their land to create Naboisho.

This case study illustrates an earned income model in which landowners and private partners collaborate to create a supportive and thriving environment that delivers mutual benefit for all parties. Tourism partners are motivated to develop successful businesses that maintain a contiguous protected wildlife area, while the landowners receive lease payments for their land and, in some cases, employment by the tourism partners.

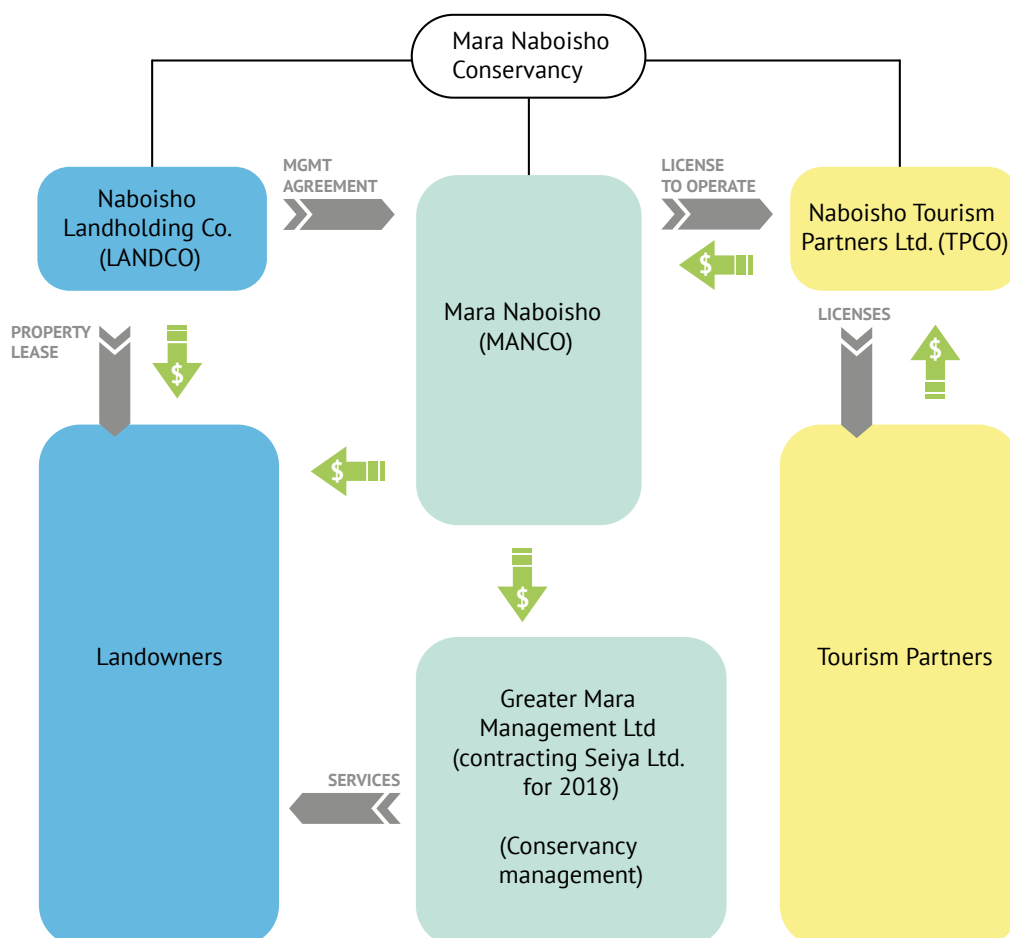
¹⁹ Naboisho conservancy also features a livestock model similar to that of NRT Trading (see Case Study 1). However, this case study focuses on the tourism component of the conservancy. For more information on livestock sales, see the links referenced above.

²⁰ For details about Naboisho’s tourism partners see: http://maasaimaraconservancies.co.ke/conservancy/mara_naboisho_conservancy/index.htm.

The primary revenue driver for Naboisho is leasing land to tourism partners within the conservancy boundary. In return for lease payments, the individual landowners agree to remove all forms of human settlement and relocate to buffer zones outside Naboisho – with the exception of limited and controlled livestock grazing – to create a protected wildlife conservancy where the tourism partners operate safari and other cultural tourism experiences.

Naboisho is a conservancy with a high concentration of wildlife, including herds of elephants, migrating wildebeests and zebras, and a significant population of lions. Under the lease terms, Naboisho strictly monitors and restricts the number of tourists who enter the conservancy and the number of tourism partners allowed to operate within it. This approach differs from that used in the neighbouring Maasai Mara National Reserve, which can have much higher density of tourists. Consequently, Naboisho reduces the number of vehicles and the human impact on the environment and its wildlife, making its conservancy an attractive and exclusive experience for tourists, who are the main source of revenue in this earned income model.

FIGURE 3. MARA NABOISHO CONSERVANCY'S PROPERTY LEASE MODEL



The Naboisho model was structured and implemented in a way that attempts to provide viable livelihoods for local communities while also ensuring the survival of the wider Maasai Mara ecosystem. It tried to ensure the achievement of these two goals by following a deliberate process:

- **Stage 1 – Conservancy institutional structure:** Naboisho adopted the following institutional governance structure, forming the backbone for the CSO’s earned income model. Professional input from lawyers and consultants represented an important part of this process:
 - **Naboisho Landholding Company (LANDCO)** A company was formed to represent the collective landowners participating in the conservancy lease model. As of 2017, this included 98 percent of land within the designated Naboisho boundary.²¹ A board of directors consisting of 15-20 landowner representatives from the nine major community land areas of Naboisho governs this company, which also holds all of the leases. LANDCO holds an annual general meeting (AGM) each August to present the progress of the Naboisho partnership to the community.
 - **Naboisho Tourism Partners Ltd. (TPCO):** In parallel to LANDCO, a private limited company owned by the six tourism partners operating within Naboisho was formed. TPCO pays lease fees to Mara Naboisho (see below) in return for exclusive operating rights within the conservancy. These rights enable the tourism partners to build low-impact and mainly tented camps within Naboisho from which they operate safari activities for clients. TPCO is governed by a board of six directors with a representative from each tourism group operating in Naboisho.
 - **Mara Naboisho (MANCO):** MANCO is a private limited company consisting of 3 LANDCO representatives, 3 TPCO representatives, and an independent member (originally from Basecamp Foundation), which serves as a formal discussion forum for joint issues affecting conservancy stakeholders and to administer certain aspects of conservancy management. MANCO is also responsible for receiving lease payments from TPCO and distributing them to the underlying landowners’ bank accounts. TPCO further contracts a third-party management company, Seiya Limited²² (this model is currently being restructured to align with a multi-conservancy, single-management regime under Greater Mara Management Ltd.), to maintain physical infrastructure on Naboisho, such as roads and water points.
- **Stage 2 – Land mapping:** Naboisho’s land boundary was mapped out, ensuring each landowner and their land plots were identified, registered, and recorded. MANCO and LANDCO collaborated in this process with technical support from a number of NGO partners headed by Basecamp Foundation Kenya.²³

²¹ 70 percent of landowners committed to the conservancy model at the outset in 2010.

²² A private company specialising in conservancy management such as maintaining roads and water points. See: <http://www.seiyaltd.com>.

²³ Philanthropic arm of Basecamp Explorer; see <http://www.basecampexplorer.com> and <http://basecampfoundationkenya.org>.

It was necessary to secure the commitment of hundreds of landowners (across the wider conservancies in the Mara region, this numbered in the thousands), which required significant community-level communication and organisation and significantly higher costs.

- **Stage 3 – Lease Negotiation:** Terms of the land leases and operating agreements between TPCO (representing the tourism partners), LANDCO (representing the landowners), and MANCO (as the facilitating entity) were negotiated. Negotiations took place in a series of meetings coordinated by Basecamp Foundation Kenya and resulted in the following lease terms being approved by all parties:
 - ☑ **Lessors** (parties providing the land): Landowners within Naboisho Conservancy
 - ☑ **Lessee** (party leasing the land): LANDCO
 - ☑ **Payment agent** (party receiving and distributing lease payments): MANCO
 - ☑ **Lease duration:** 15 years (extendable for an additional 15 years, subject to all parties agreeing)
 - ☑ **Landowner lease fee:** KSh 3,000 per hectare per year (approximately US\$40 in 2010)
 - ☑ **Lease inflation:** The land lease fee per hectare increases at 8 percent per year to accommodate for inflation
 - ☑ **Total lease fee for the entire conservancy:** KSh 62 million (approximately US\$826,000 in 2010)
 - ☑ **Maximum camp size:** 24 beds²⁴
 - ☑ **Maximum camp density:** 700 acres per tent (350 acres per bed)

- **Stage 4 – Lease signatures:** The land leases were signed between LANDCO and the individual landowners in 2010. Individual landowners sign property rights leases with LANDCO and then MANCO signs a “master lease agreement” with LANDCO.

- **Stage 5 – Lease registration:** Most leases are registered on a single ledger, which is regularly updated to reflect the underlying land ownership and historical payments. The ability to register leases is a critical step in securing land tenure.

²⁴ Mara Naboisho operated for many years with 114 beds, although its business model was designed for 146 beds. In 2017-18, the conservancy operated 124 beds and, having leased additional land, will be fully subscribed at 150 beds as of June 2019.

EARNED INCOME MODEL

Naboisho's earned income model operates through MANCO, which serves as the receiving and distributing agent for land lease and livestock-related payments (see below). This income structure is driven by:

- **Payment 1:** TPCO collects payments from the underlying tourism partners. Payments comprise a fixed annual fee (paid monthly) equivalent to 30 percent occupancy, as well as a variable quarterly invoice for occupancies over 30 percent.²⁵ Funds to finance the lease fee are primarily drawn from concession fees charged by the tourism partners which are typically about \$150 per tourist per day;
- **Payment 2:** TPCO makes a single monthly payment to MANCO for the owed land lease amount – this is the primary earned income payment;
- **Payment 3:** MANCO pays a fixed, pre-negotiated lease fee directly to participating landowner bank accounts based on the amount of land they own within Naboisho. Fees are paid per hectare owned. On average, each landowner with an intact 60.62-hectare parcel of land receives KSh 21,256 per month (approximately \$210).²⁶

In 2016-2017, Naboisho directly employed 142 people (including tourist camp employees), 73 percent of whom came from local communities. Since the conservancy's formation in 2010, the average landowner lease fee has totalled KSh 111,913 per year (approximately US\$1,100). Over the initial 15-year lease period of the conservancy, it is expected that over US\$17 million will be paid to local Maasai households. This will create a very powerful incentive for local people to value and protect the region's wildlife and nature. Accumulated investments in Naboisho from 2009-2013 totalled US\$7.1 million, of which US\$5.9 million was paid by the private tourism partners.

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Robust demand:** Nature-based tourism has been a key driver of Kenya's economic development and safaris are among the most popular tourist activities. Tourism generated US\$1.2 billion in revenue in 2012, making it the third largest contributor to Kenya's economy after agriculture and manufacturing.²⁷ Because this type of economic activity can also have positive social and environmental impacts – e.g., contributing to the alleviation of poverty and the conservation of habitat – it is anticipated that they will continue to thrive with a supportive regulatory framework.

²⁵ This new financial model was introduced in 2018 by Greater Mara Management. Prior to that it was a fixed monthly fee per bed managed, with no variable fee.

²⁶ Previously, Mara Naboisho Conservancy paid local chiefs, who subsequently distributed the funds to landowners. This proved to be unsuccessful, with many landowners not receiving payments, so the new system was introduced.

²⁷ Source: <https://www.omicsonline.org/open-access/economic-contribution-challenges-and-way-forward-for-wildlifebased-tourism-industry-in-east-ern-african-countries-2167-0269.1000122.php>

Regulatory environment

- **Enabling land law:** The ability of landowners to lease their land under Kenyan law was paramount to establishing the earned income model. Land allocations – whereby each landowner was provided by the government with ownership titles over specific plots of land – enabled the formation of Naboisho and the ability of LANDCO to enter into a business relationship with tourism partners via MANCO. Further, the landowners' legal land rights were essential. Their ability to control land use through a lease agreement and to transfer rights to develop infrastructure over the medium to long term (in this case 15 years) were also central to attracting tourism partners and their investment capital to Naboisho. This provided the partners with enough time to invest in their camps, conservancy management, infrastructure, and local communities with a good chance to recoup their investment.

Community and stakeholders

- **Community buy-in:** The landowners had a choice of other land uses such as intensive cattle rearing or crop farming, depending on the location and quality of their land. If a small number of landowners choose to use their land differently, it can have a disproportionate effect on the majority – just one small plot with a fence and tin roof can ruin the tourism value of a large, open natural landscape. However, by giving landowners a voice through LANDCO and equitably sharing benefits through MANCO, Naboisho incentivises local communities to support and not compromise the earned income model, thus mitigating a major risk. Indeed, in addition to direct lease-based income, the communities also gain enhanced local employment opportunities and the provision of health, education, and other incidental benefits.
- **NGO support:** NGOs including Basecamp Foundation Kenya were instrumental in the start-up phase of this venture, providing technical support as a broker and negotiator between the two main parties central to the earned income model – community landowners and private-sector tourism operators. This illustrates the value of leveraging external relationships and expertise.
- **Community development:** Naboisho's secured land tenure programme has delivered benefits to local communities including clean water points for households neighbouring the conservancy, solutions for renewable energy, maternity wards in local health centres, educational scholarships for girls, teachers' training and programs for microfinance, early childhood development and the Koiyaki Guiding School providing guide training for local Maasai who are subsequently employed by tourism partners supporting them to finance the landowner lease. CSOs should be aware that populations tend to congregate around development projects such as schools and health centres, so there are significant risks involved if these facilities are not well planned.

INTERNAL FACTORS

The concept

- **Shared financial commitment:** The relationship between private tourism operators and local communities is based upon the principle of equitable partnership, whereby each partner is in effect making a long-term financial commitment to a shared asset – in this case, the conservancy. Combining and coordinating their efforts ensures that the conservancy will thrive, bestowing benefits on all parties.

Marketing plan

- **Limited camp and bed availability:** The lease terms permit a maximum of nine camps, a maximum camp size of 24 beds, and a maximum density of 700 acres per tent (or 350 acres per bed) within Naboisho. Restricting the number and size of camps creates a more private and exclusive experience for guests, who in turn are prepared to pay higher bed rates and conservancy levies. The limitation on camps and beds further restricts unapproved new tourism partners from opening camps on Naboisho and spoiling this exclusive dynamic.
- **Branding and destination marketing:** Naboisho's brand narrative is strong: It is a destination for exclusive, high-quality, wildlife-based tourism experiences with a genuine commitment to conservation. This provides a unique selling point relative to competition in the Mara National Reserve. Indeed, Naboisho was recently assessed by the Global Sustainable Tourism Council and received one of the highest scores possible for an early-stage conservation tourism model. This success attracts tourists to the conservancy, thus benefitting the CSO.
- **Competitive barriers:** Terms of the lease agreement prevents alternative land uses on Naboisho not permitted by LANDCO or MANCO. Landowners are themselves also prohibited from building settlements, grazing unapproved livestock, or planting crops in the conservancy. These legal protections ultimately act as a robust barrier that protects the earned income model from competitive land uses.
- **Facilitating effective partnerships:** The lease also granted the tourism partners rights to build and manage camps on Naboisho. Without the rights to develop these facilities – as well as airstrips providing access – the tourism partners would not have leased the land. This illustrates the importance of understanding and addressing the needs of market participants, whether they are customers, suppliers, or partners.

Management and governance

- **Complexity of governance structure:** Although Naboisho's governance structure is seemingly complex, it was designed specifically to address the environmental, community, socio-economic, and business contexts unique to its operating circumstances. This process was reliant on support from experienced NGOs, who in turn contracted lawyers and consultants to help design a robust legal and governance structure that would support earned income payments, the lease and land rights component, benefit distribution, and management transparency. This highlights

the importance of CSOs seeking professional assistance in designing the governance structures for their earned income ventures.

- **Strong board participation:** Naboisho's strong commitment to capacity building ensures the community representatives who are elected to LANDCO and MANCO possess the necessary skills to carry out their function and to adequately represent the landowners. For example, management and leadership training for board members helps maintain the earned income model. Training – which covers such topics as good governance, stakeholder communication, conflict mitigation, and key conservancy issues (e.g., livestock encroachment) – is offered and delivered by local NGO partners such as the Maasai Mara Wildlife Conservancies Association (MMWCA).²⁸
- **Inclusion:** By giving landowners a strong voice in guiding the venture, LANDCO plays an important role in managing relations with the wider community – for example, in managing access for grazing by community-owned livestock. Maintaining positive relationships with neighbours and local communities is vital to the success of the business model, and thus to the tourism partners' ability to pay landowners. Formal forums are provided for all stakeholders involved in the venture to provide their feedback or concerns on how the model is functioning. This creates an inclusive dynamic, increasing the sense of ownership among the local community.
- **Shared decision-making and transparency:** MANCO provides a neutral governance model in which all parties are equally represented. Decisions affecting the conservancy are made jointly by the landowners and the tourism partners through the MANCO platform and are transparent for the wider community. Community representation at both LANDCO and MANCO ensures transparent decision-making and distribution of lease payments and fringe benefits. This limits any local misconceptions about the earned income model.
- **Defined boundaries:** Geographic boundaries of Naboisho are clearly defined and payments are made on a per hectare basis rather than by the number of landowners. This creates two positive dynamics. First, it discentivises the fragmentation of land ownership, as each landowner would receive less lease money. Secondly, it provides greater certainty to tourism partners, who know the maximum lease payment obligation.
- **Experienced management with a clear product:** Land lease payments financed by income from tourism create the framework for this earned income model. Tourism products in this case were clearly designed and implemented by professional management with considerable market experience, thus reducing the risk of non-performance. Each tourism partner operating in Naboisho was selected based on its strong performance track record in selling and operating safari experiences. Basecamp Foundation Kenya and other supportive NGOs played a pivotal role in brokering the relationship and lease between the tourism partners and landowners.

²⁸ See: <https://www.maraconservancies.org>.

Operations and timeline

- **Mission alignment:** The lease provides MANCO with rights to either directly manage or subcontract management of the conservancy. In the case of Naboisho, this management has been subcontracted to Seiya Limited. (Going forward, this arrangement will be managed by the newly formed non-profit, Greater Mara Management Company, which is a joint initiative between Naboisho and nearby Mara North Conservancy.) MANCO's neutral oversight helps ensure that tourism operations are developed and operated in a manner that is highly aligned with conservation management (e.g., there is widespread evidence that the presence of tourism facilities and associated activities creates safe havens for wildlife). Indeed, tourism personnel serve as eyes and ears for the conservation manager.
- **Outsourcing the generation of income:** The operations that generate revenue – in this case, the sale of tourist experiences to pay for lease payments – are the responsibility of the private partner and not the CSO. In some instances, this may not be desirable, as it arguably limits the CSO's financial independence and ability to build capacity. However, in this case, the private partners are also major employers within local communities and directly support capacity building (e.g., through the Koiyaki Guiding School.²⁹)
- **Monitoring and evaluation:** In order to serve as an example of “best practices” and an inspiration for other conservancies, NGOs working across Naboisho constantly monitor and report on socio-economic and environmental impacts. This involves establishing and monitoring a series of economic, social, and environmental indicators (i.e., performance measures), which can serve as the basis for launching other community wildlife conservancy models in the region and attracting both donor and tourist interest. Naboisho's indicators include community employees, trained guides, land lease payments, and government tax payments.

Financial plan

- **Start-up funding:** Private sector tourism partners provided the majority of start-up capital for the earned income component through their land lease payments and investment in tourism infrastructure including camps and airstrips.³⁰ They therefore took on a considerable portion of direct financial risk to the benefit of the CSO. Meanwhile, landowners took on indirect financial risk in transferring the use of their land to the tourism partners when it could otherwise have been used to generate other income, for example from livestock. This illustrates the fact that in an effective partnership, risks – in addition to rewards – are typically shared among the parties.
- **Fixed terms:** The lease and payment terms were negotiated at a fixed rate, providing secure income for the CSO and underlying community. Steady, reliable income improves overall financial planning and livelihood development in these communities and helps the CSO itself – in this case, MANCO – manage its costs.
- **Diversified income generation:** The legal and governance structure provided by the Naboisho model has enabled MANCO, TPCO, and LANDCO to jointly consider new forms of income to support lease payments and conservancy management costs. For example, with support from

²⁹ See: <http://www.basecampfoundationusa.org/projects/capacity/koiyaki-guiding-school/>.

³⁰ Technical funding to structure the legal framework, lease mechanism and register all the community landowners was provided by NGOs.

organisations such as MMWCA and Conservation Capital, Naboisho is developing commercial cattle operations, which will help establish a varied and resilient income base beyond tourism. The presence of strong governance bodies representing the participating stakeholders, clear land tenure, and existing payment structures has enabled this design.

- **Capital appreciation:** Because landowners retain ownership of the land, they stand in the long term to benefit from increases to its capital value. In the case of Naboisho, the tourism and supporting NGO partners are investing in road infrastructure, utilities, tourism facilities, airstrips, and livestock infrastructure, as well as creating jobs and training for local communities. Although the landowners are unlikely to sell their land, its value is likely to increase through these investments made by the tourism partners.
- **Opportunity cost:** Under this model, the landowners gain income from the lease payments, but commit to a 15-year period during which they are contractually barred from generating alternative income from their land (other than through controlled livestock grazing). When entering such agreements, CSOs must carefully calculate the balance between the income gained and that which is lost (i.e., “opportunity cost”).

Risks and assumptions

- **Financial sustainability:** Subject to the lease terms being respected and adhered to, this model theoretically presents a high degree of financial sustainability. It is, however, exposed to risks such as a downturn in tourism markets reducing the concession fees and ability of tourism partners to pay the lease; political risks that can catalyse livestock encroachment; and renegotiation risks whereby the community refuses to renew the lease.
- **Political risk and variability of demand:** Tourism rises and falls based on a variety of factors, including the political climate. For example, tourism to Kenya decreased in 2015-2016 due in part to political insecurity. Generally, Naboisho’s tourism partners need to maintain at least a 30 percent occupancy rate to pay the lease fee.³¹ If occupancy rates fall and tourism partners can no longer afford to pay the lease, the entire earned income model may be compromised as landowners seek alternative means to earn income from their land.
- **Inflation rate:** The inclusion of an 8 percent inflation rate on the underlying land lease fee per hectare places a significant burden on the tourism partners because neither tourism concessions or bed rates are likely to increase at the same rate. If the tourism partners are unable to pass increasing costs on to their customers or to increase occupancy rates to cover the costs, they may be pressured to maintain the lease fees.
- **Legal risk:** The model relies heavily on secure land laws that enable the Maasai to lease their land to tourism partners for the purposes of creating the conservancy. If the government decided to revoke or amend this right, the whole conservancy model would collapse, resulting in a loss of the tourism partners’ investment capital, landowner income, and tax revenue for the county.

³¹ Occupancy rate is the number of nights a bed is occupied by a tourist out of the total potential available nights across a year. For example, if a bed is available for 10 nights a year with five nights being occupied by a tourist, the occupancy rate is 50 percent.

MEMBERSHIP

DESCRIPTION

Charging customers periodic dues or subscription fees in exchange for exclusive and unlimited access to a product, service, or experience provided by the CSO.

CORE ATTRIBUTES

ADVANTAGES

- **Recurring revenue:** In this model, members pay a fixed fee at predetermined intervals – e.g., every month – which provides financial stability to a CSO even during seasonal downturns or unexpectedly lean periods.
- **Strong client relationships:** As opposed to models involving one-time sales, the membership model allows a CSO to cultivate deeper and more meaningful relationships with ongoing customers and, in some cases, suppliers and other business partners.
- **Community building:** In addition to building rapport with its clients, a CSO can also use a membership model to facilitate the development of relationships among clients. By establishing a community around its work, a membership model can become less commercial product and more civic engagement.
- **Network effects:** Satisfied members are likely to recruit new members from their own communities and professional networks, lessening the marketing burden on the CSO. By focusing its efforts on attracting high-profile members (e.g., prominent or influential individuals or organisations), a CSO can facilitate uptake among a broader group of supporters.

DISADVANTAGES

- **Recurring demand:** If the CSO's membership model charges monthly dues, it must also deliver monthly benefits. This requires the ability to provide a consistently high-quality product, service, or other client experience that makes the member feel like they are getting their money's worth.
- **Ongoing engagement:** For the model to work, members must feel connected to the CSO and its mission. If they are only contacted when it's time to pay their membership dues, they will wonder what they're paying for. To support regular outreach, maintain member engagement, and be responsive to member needs, a CSO may need to invest in additional personnel (for "high-touch" engagement) and/or new technology (for "high-tech" engagement) – including, but not limited to, regular collection of dues.

- **Specific legal structure:** A CSO's charter or bylaws may not be designed to support a membership model. In such cases, the organisation may need to consult with legal professionals to establish the proper governance structure and ensure compliance with local laws and regulations.

RISKS

- **Waning interest:** Some members may lose interest in the scheme if it does not meet their expectations or fails to evolve over time. A CSO should consider how it can maintain quality and consistency while still offering fresh and engaging new experiences to its members.
- **Participation level:** Engaging the appropriate number of members requires a CSO to achieve a delicate balance. If it fails to recruit enough members, the scheme may not cover its costs. On the other hand, if it recruits too many members, the scheme may become unwieldy to support and lose its sense of “exclusivity,” thus reducing its ability to charge premium dues. A CSO may wish to consider multiple membership levels with different dues and associated benefits.
- **Reputational risk:** If the membership scheme is perceived as overly commercial – nothing more than a revenue driver – it may tarnish the CSO's overall reputation, thus threatening its core mission. By delivering member benefits that are well-aligned with the organisation's purpose, a CSO can mitigate this risk.



MEMBERSHIP | CASE STUDY 6

ORGANISATION:
**KENYA WILDLIFE
CONSERVANCIES ASSOCIATION**

MEMBER SCHEME:
Membership fees entitle member organisations to such benefits as networking events, technical information, action on common interests, or exclusive introduction forums to other members.

WWW.KWCAKENYA.COM/OUR-MEMBERS

DESCRIPTION

Kenya Wildlife Conservancies Association (KWCA) is a landowner-driven, membership-based organisation representing community and private conservancies in Kenya across 6.3 million hectares of land in 28 counties. KWCA coordinates and represents 160 conservancy landowner groups and regional associations to create an enabling environment for conservancies to deliver environmental and livelihood benefits.

Its mission is *“to be the forum where landowners have a unified voice, share experiences, and actively participate in protecting and benefiting from wildlife. KWCA works towards a future where wildlife and communities benefit from a network of functional conservancies that complement state protected areas.”*

KWCA works to meet its objectives by:

- Building partnerships with private landowners and community landowners;
- Working with the relevant state and county agencies to develop and implement policies and laws that encourage sustainable management of wildlife and landscapes;
- Working with field scientists and research institutions to ensure continuous monitoring of the overall status of wildlife populations and their habitats;
- Developing attainable business standards, codes of conduct, and practices that enhance the delivery of services to stakeholders and conservancy visitors.

KWCA is governed by a management board and secretariat who are delegated authority by the members. The management board consists of 18 members drawn from KWCA's five founding organisations,³² its 12 regional associations, and one representative from either Tourism Federation or Eco-tourism Kenya. The board is in charge of checks and balances on the management, strategy and approval of work plans and budgets. The secretariat is answerable to the board and is headed by a CEO who is recruited on a three-year, renewable-term basis.

One earned income mechanism KWCA uses to build revenue is a membership scheme. KWCA offers national membership for private and community conservancies and organisations that interface with wildlife conservation. The scheme has two membership categories:

TYPE	DESCRIPTION	VOTING RIGHTS?	REGISTRATION PROCESS
FULL MEMBERS	Community and private conservancies – including game farms, sanctuaries, ranches, and nature parks – whose main objectives include wildlife conservation	Yes	Application form to be approved by the KWCA board + membership registration fee of KSh 10,000 (c. US\$100) + annual subscription fee of KSh 10,000 ³³
AFFILIATE MEMBERS	Organisations that interface with wildlife associations and whose membership is a benefit to KWCA – including wildlife conservation NGOs, private sector entities, investors, and donors	No	Same as full members.

³² Africa Wildlife Foundation (AWF), World Wide Fund for Nature (WWF), The Nature Conservancy (TNC), Kenya Wildlife Service (KWS), and Kenya Wildlife Trust (KWT).

³³ In this case, no application processing fee is charged by KWCA. In some situations, this may be considered as an additional method to generate income from a membership scheme.

Thus, full members essentially represent landowners, while affiliate members represent organisations that contribute to wildlife conservation efforts. Applications to become a full member are made by way of a simple three-page application form downloadable from the KWCA website.³⁴ The rights and obligations of members – and the process to become a member – are clearly formalised in the constitutional legal document establishing KWCA.

Thus far, KWCA has registered more than 113 full members across 28 counties. KWCA has delayed recruitment of affiliate members for the time being to allow full members to become more engaged and established, thereby creating a greater sense of ownership.

EARNED INCOME MODEL

This membership model involves two types of revenue:

- **Registration fees:** Registration fees of KSh 10,000 (about US\$100) are charged to all new members.
- **Annual membership subscription fees:** Annual subscription fees of KSh 10,000 are charged to all members.

Revenue from annual fees in 2017 were expected to reach KSh 710,000 (approximately US\$7,000).

Costs associated with running the membership scheme include:

- Processing applications; and
- Ongoing communication with members.

Both of these costs require an investment of time from KWCA employees. KWCA does not use specialised software – for example, a relationship management database – relying only on Excel spreadsheets.

Currently, the revenue from membership fees is not sufficient to cover the management costs of KWCA, which overall are funded primarily by donor organizations such as USAID. However, membership fees represent a source of sustaining income, as well as an important investment in the organization by its member conservancies.

³⁴ See: <https://kwcakenya.com/wp-content/uploads/2018/01/KWCA-Membership-Form-1.pdf>.

KEY CONSIDERATIONS

Market analysis

- **Proliferation of conservancies:** Kenya is home to an estimated 160 conservancies, with the number growing each year.³⁵ Because of the socio-economic and conservation benefits they provide to local communities, conservancies are expected to continue to proliferate, as are supporting organisations, such as conservation-driven NGOs, private sector entities, and funders. Thus, KWCA has a relatively large and growing base of potential members, many of whom have struggled to effectively represent their local interests to the national government. Prior to establishing a membership scheme, it is critical for CSOs to clearly identify its target members (as well as those who cannot be members), the membership fees they are willing and able to pay, and the services they are likely to require from the scheme.

Regulatory environment

- **Legal structure:** Membership organisations often require a specific legal structure. Professional legal advice should be sought by CSOs interested in establishing a membership scheme – including tax advice on membership fees. In KWCA's case, its constitution clearly outlines the membership scheme.

Community and stakeholders

- **Conflicts of interest:** In designing a membership scheme, it may be important for the CSO to establish who can – or who cannot – become a member and to detail the rights and obligations members are expected to uphold. Clear, transparent expectations can help a CSO avoid any perceptions that its mission may be compromised by relationships with members who have conflicts of interest. In KWCA's case, its membership scheme is limited to organisations that share an interest in wildlife conservation, and its dual-level structure ensures that affiliate members such as NGOs can't prioritise their own agendas over those of full-member landowners.

INTERNAL FACTORS

The concept

- **Stronger together:** Through its membership scheme, KWCA creates a forum for supporters of wildlife conservation to share skills and insights that help build capacity, and to harmonise their voices in advocating for policy. Many landowners had expressed the need for a national organisation to represent their interests, and KWCA was well-positioned to fill this void after having extensively studied a similar effort in Namibia, which it sought to improve upon.

³⁵ Ibid.

Marketing plan

- **Recruiting diverse membership:** KWCA has attracted a significant number of conservancies from every region of the country as full members. However, as of 2017, there were only a small number of NGOs and no private-sector investors as affiliate members. This places a burden on the full members, who are generally less able to afford higher fees. In developing a membership scheme, CSOs should consider what benefits they might offer to recruit different customer types – especially those with the most financial resources – without compromising their mission or the integrity of the organisation.
- **Pricing for the “ideal” membership level:** A membership scheme like KWCA’s always has a “glass ceiling” – if too many members are accepted, then the purpose of the scheme may be diluted and the administration costs are likely to soar (possibly requiring donor support). CSOs should bear in mind that setting the membership fee too high (fewer applications) or too low (too many applications) will impact both the number and quality of members. For example, a high membership fee may exclude potential members and the scheme may become a club for those who can afford the fee. Additionally, members paying high fees may also demand more or better services. Conversely, when fees are set too low, higher transaction costs may render membership a burden, lower the amount and quality of services, and membership may shrink or become disengaged.
- **Application simplicity:** Ensuring that the application process is uncomplicated (e.g., no more than a few pages) and accessible (e.g., available online) is important. This has played a big role in boosting KWCA’s membership. CSOs should also implement an approval process that ensures the shortest possible wait for potential members between their application and the membership decision.
- **Maintaining strong member relationships:** KWCA communicates regularly with its members using high-quality correspondence and other communications to create a strong sense of engagement with the organisation and other members. Because KWCA has a national focus, it works closely with 12 regional associations within the organisation to maximise its reach and facilitate “high-touch” engagement with members at a regional level. This not only ensures members are receiving benefits, but also removes some of the burden of running the membership scheme from the main association. (Note that this would not be an applicable consideration for an organisation running a membership scheme that only works in a single region.)

- **Formal channels for member feedback:** In addition to soliciting feedback at Annual General Meetings (AGMs), KWCA has begun to implement a system of regular satisfaction surveys. CSOs should provide members with accessible channels for feedback and appraise their input carefully. For example, surveys should cover details of the programme including but not limited to the following, with weighted levels of satisfaction (e.g., 1= very satisfied, 5 = very unsatisfied):
 - ☑ Quality of communication materials;
 - ☑ Relevance and interest of membership events and materials;
 - ☑ Quality of membership services – e.g., access to facilities;
 - ☑ Quality of network opportunities;
 - ☑ Quality of membership websites or networking platforms;
 - ☑ Overall value for membership fees;
 - ☑ Efficiency of staff; and
 - ☑ Efficiency of payment mechanisms.

Management and governance

- **Simple management:** As established in its constitution, KWCA has a straightforward governance and management structure – consisting of the representative management board and CEO-led secretariat – which has been relatively easy to operationalise and requires little investment from KWCA.
- **Representative governance:** An earlier plan to include affiliate members as full members was rejected as a means of ensuring the voices of full members are prioritised. To uphold this commitment, decisions to accept or reject new member applications are made upon an evaluation by the secretariat and approval by the board.

Operations and timeline

- **Maintaining membership payments:** Ensuring all membership payments are up to date is a distinct challenge for many membership schemes. This can be overcome with high-quality payment monitoring systems and early warning for members that their fees are due (members should be contacted via email, letter, or in person 3 months before their payment deadline). In KWCA's case, Excel is sufficient to support these operations provided it is well-monitored.
- **Financial plan:** Financial planning is a key step in sustaining a membership scheme. KWCA recognizes that membership payments are inadequate to cover its operations, thus it developed a financial plan to guide cost reduction and to diversify income generation. KWCA's 5-year plan lays out a phased approach, including seeking grants for current shortfalls, funding programme costs, and supporting additional services sought by members and partners. A survey and a viability assessment were critical components of this process.

- **Predictable revenues:** A stable, predictable revenue stream is one of the key advantages of a membership-based earned income model. For KWCA, each year's membership fees are equal to a set amount multiplied by the number of members. These fees are paid directly to KWCA, which simplifies financial planning.

RISK MANAGEMENT

Risks and assumptions

- **Reputational risk:** There is not only financial but reputational risk if the membership scheme is not executed well and members fail to see continuing value in participating. In addition to threatening KWCA's earned income from the membership scheme, this could also hinder its broader efforts in the wildlife conservation space.

EVENTS

DEFINITION

Charging clients an entrance fee to attend a professionally organised event, which may involve fundraising, professional training, social networking, thought leadership, team building, idea sharing, stakeholder appreciation, or any number of other formats. An event-based earned income model often requires creativity and skill in tailoring the offering to the needs or interests of the desired audience.

CORE ATTRIBUTES

ADVANTAGES

- **Raising awareness:** Events can raise a CSO's visibility, potentially attracting new supporters, possibly even in large numbers. This awareness can extend beyond the event's attendees through news coverage, blog posts, social media, and other channels.
- **Making it real:** The work of many CSOs is focused on complex ideas and nuanced issues that may be difficult for stakeholders to fully grasp. Events allow existing and potential supporters to get a behind-the-scenes look at the human beings behind the work, helping them make a more meaningful connection to the CSO.
- **Creating community:** Events pull diverse groups together around a common goal, building community and increasing individual commitment.
- **Offering direct engagement:** When stakeholders are face-to-face with the managers and employees of a CSO, they are able to engage in direct dialogue, heightening their sense of the organisation's transparency and accountability.
- **Promoting teamwork:** Events often require the involvement and attendance of the entire organisation, encouraging collaboration and camaraderie.
- **Sponsorships:** CSOs can often rely on for-profit businesses or NGOs to donate or pay for many of the amenities needed for an event in exchange for advertising space.

DISADVANTAGES

- **Limited market:** Events require customers to be in a specific location at a specific time, placing an inherent restriction on the number of people able to participate. For a large enough event with an attractive enough offering, some attendees may be willing to travel long distances, but the audience for most events will be local or, at most, regional – and limited to those clients with no prior scheduling conflicts.

- **Complexity:** Events involve a great number of moving parts and thus require a significant amount of time, planning, coordination, attention to detail, and organisational skill.
- **Costs:** The costs involved in hosting an event can be significant, potentially even exceeding the income from participants and sponsors, thus resulting in an overall financial loss. Key costs include, for example, staffing, marketing, health and safety, legal issues, sponsorship, payment systems, etc. To ensure events remain economically viable, CSOs must carefully calculate these costs against income forecasts.
- **Reserving a venue:** Large gatherings of people require large, accessible spaces, and the most desirable venues are not only expensive but often reserved months in advance – potentially before the CSO knows how many people will be attending (and, therefore, how much space it will need). Donated space may be available, but hard to come by.
- **Measuring the return:** Although a CSO will receive immediate income in the form of entry fees, it can be very difficult to measure the total return on investment from an event. Many of the benefits – such as increased exposure, new supporters, and enhanced reputation among existing supporters – won't pay off until later and will be difficult to link directly to the event.

RISKS

- **Unpredictability:** Unforeseen circumstances beyond the CSO's control – such as a competing event, the illness of a key speaker, an electrical or plumbing problem, or even inclement weather – can ruin an otherwise perfectly planned event.
- **Legal liability:** Some venues may require the renting CSO to carry general liability insurance to cover damages or injuries. CSOs should always consult a legal professional before signing a contract to rent a venue.
- **Security:** Although security is more easily achieved at an indoor event (e.g., lock the door), outdoor events may require significant security measures. When outdoors, it's easy for people or wildlife to wander into an event and create a potentially dangerous disruption.

SAFARICOM MARATHON



EVENTS | CASE STUDY 7

ORGANISATION:
**LEWA WILDLIFE CONSERVANCY
& TUSK TRUST**

EVENT: **SAFARICOM
MARATHON³⁶** (AN ANNUAL
EVENT)

WWW.LEWA.ORG/SUPPORT-LEWA/SAFARICOM-MARATHON

DESCRIPTION

The Safaricom Marathon is an annual June running event that takes place on the Lewa Wildlife Conservancy in northern Kenya. Lewa Wildlife Conservancy is a wildlife sanctuary that is home to a great number of Africa's iconic wildlife species. It is also part of the Mount Kenya UNESCO World Heritage Site.

The marathon race is organised by a partnership between Lewa Wildlife Conservancy and UK-based Tusk Trust, with sponsorship from Safaricom, a mobile network provider in Kenya. It offers full (26-mile) and half (13-mile) marathon races, for adults and a 5K race for children, on a course that follows existing dirt roads typically used by safari vehicles.

The event is unique because of its natural setting and proximity to wildlife, including elephant and rhino. It is also known as a particularly gruelling event as the relatively high-altitude climate is harsh and hot, and the terrain rough.

³⁶ Website: www.safaricommarathon.com

Managing the event requires a great deal of contingency planning. There are no barriers between the course and the rest of the conservancy, thus experienced, armed rangers are employed to provide security for racers. In addition, spotter planes and light aircraft are used to monitor wildlife movements. Emergency medical support is provided by helicopters. A recovery tent is situated at the finish, manned by a large team of medics, and basic first aid is available at regular intervals along the course.

Additionally, Lewa and Tusk must manage accommodations for hundreds of participants. Due to travel logistics, participants and spectators are required to stay on the conservancy, which provides an additional revenue stream. The marathon offers its runners a variety of accommodation types, including lodges and tented camps, at different price points. Lewa and Tusk enlist the help of a third-party partner to help with travel arrangements for overseas runners.

The event has grown considerably over the years. In 2000, the inaugural event attracted 180 runners and raised US\$50,000. In 2017, nearly 1,400 runners raised US\$700,000.³⁷ This contributed more than US\$260,000 to the Lewa Wildlife Conservancy, helping support its operating overhead and conservation activities.

In addition to supporting Lewa's conservancy and community development programmes, the marathon has raised approximately US\$7 million for Tusk-supported conservation and community development initiatives across Kenya and distributed funding to local, regional, and national efforts such as the Northern Rangelands Trust, Mount Kenya Trust, and Ngare Ndare Forest Trust.

EARNED INCOME MODEL

- **Entrance fees:** Each participant pays an entry fee to run the marathon (see details below)
- **Accommodations:** A range of accommodations for the event raise additional income
- **Spectator fees:** Many non-local spectators also pay to stay at Lewa and watch the race
- **Sponsorship:** Safaricom, the title sponsor, and 15 to 20 other co-sponsors pay the conservancy a fee in return for advertising space at the event and on promotional materials

Entrance fees are as follows:

- KSh 15,000 (full/half marathon) – Kenyan resident
- KSh 3,000 (kids' race) – Kenyan resident
- £200 (full/half marathon) – International runner
 - Each overseas runner is also expected to raise a minimum of £1,500 (or US\$2,000) over and above the entry fee

³⁷ Website: www.safaricom.co.ke/safaricommarathon/about-us

The range of accommodation rates are as follows:

- KSh 14,900-29,800 – sharing a tent
- KSh 20,160-39,800 – individual
- KSh 11,175-21,400 – children ages 12-17
- KSh 7,450-13,750 – children ages 5-11
 - Children under 5 are free

Spectator fees are as follows:

- KSh 1,000 – Kenyan resident
- £100 – International spectator

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Market demand:** Although marathons have been around for decades, participation numbers have increased dramatically in recent years. As market demand for marathons and extreme running events continues to grow internationally, Lewa capitalizes on this trend through a strong marketing strategy in collaboration with Tusk Trust.
- **Competitors:** Due in part to the success of the Safaricom Marathon, there are now a number of other “iconic” safari marathons in Africa³⁸ and therefore Lewa needs to remain a professionally run, high-quality event to retain its participants and generate word-of-mouth referrals.

Regulatory environment

- **Potential for legal liability:** Participant safety is a chief concern, prompting the organisers to enlist the help of significant numbers of security and medical personnel and related resources. However, Lewa and Tusk also take out additional liability insurance for the weekend of the event and have runners and spectators all sign disclaimers acknowledging the risks involved.

Community and stakeholders

- **Strong, enduring relationships:** Tusk first funded Lewa in 1995 when two rhinos were bought to the newly formed conservancy and has been a partner ever since. The very strong relationship and foundation of trust between the two organisations has been the key to the

³⁸ For example, Kilimanjaro Marathon, Victoria Falls Marathon, Knysna Forest Marathon, and Uganda International Marathon.

success of the marathon, and the continuity of management personnel at Tusk, Lewa, and Safaricom over the last 19 years has also been an integral element.

- **Considering local impacts:** Environmental impact assessments were conducted in 2010 and 2016, showing negligible impact on the conservancy. Meanwhile, the neighbouring communities all take part in the event. For example, there is a community team event that is hotly contested between 15 nearby communities who all get free entry. In addition, the 21 schools supported through Lewa's comprehensive Education Programme enter teams in the children's race free of charge. Meanwhile, thousands of locals come to spectate each year. By providing these opportunities, as well as by giving community members the opportunity to sell goods and food during the event, Lewa and Tusk have ensured local communities embrace the event for its positive impacts on the region.

INTERNAL FACTORS

The concept

- **Relevant context:** The Safaricom Marathon is unique given its location within a major wildlife conservancy. This context attracts runners from all over the world, mainly drawn by the opportunity to run a marathon while viewing some of East Africa's most iconic wildlife in a picturesque setting and landscape.

Marketing plan

- **International profile:** The marathon receives international press and media coverage as well and promotion from sponsors and conservation partners of Lewa Wildlife Conservancy. This not only stimulates and attracts participants but also sponsors. The event website and brochures are strong tools supporting the event's marketing.
- **Third-party support:** The marathon organisers engage a partner, Exceptional Travel, to support the logistics of international participants and the bonding of their travel arrangements. Although this relationship was primarily motivated by the fact that Lewa and Tusk cannot legally act as travel agents, it also illustrates the value of outsourcing activities that may fall outside a CSO's core expertise.
- **Runners as ambassadors:** By incorporating a fundraising component for international participants, Lewa enlists their help in financing the marathon, funding its broader mission, and raising the conservancy's profile among international audiences.

Management and governance

- **Professional management and expertise:** The Safaricom Marathon is extremely well managed and organised. It is advised that CSOs contract professional event organisers if undertaking events of this magnitude – especially for the first time. For example, when the marathon began in 2000, Lewa and Tusk sought guidance from a European long-distance runner and coach, who advised on the course set up.

Operations and timeline

- **Scale of the event:** This event requires a large area of suitable land for both the marathon and accommodations, which Lewa is able to provide on its own. If a CSO cannot host the event on its own premises, the premises may need to be rented out, which could prove costly. In this situation, partners may be willing to offer their premises for free in support of the CSO.
- **Complex logistics:** Today, the organisers are able to successfully manage 1,400 runners, 4,000 spectators, 500 security personnel, 100 medical personnel with two CASEVAC helicopters, 3 purpose-built tented camps, a post-race festival in the park, 100 VIPs, 6 hours of live TV, and a full itinerary for 200 overseas runners who visit projects supported by the marathon before the event. However, Lewa and Tusk have built this capacity and know-how over 19 years. CSOs looking to host events should consider starting small and taking a patient approach to growing not only the event itself but their ability to manage it.
- **Maximum capacity:** Starting in 2016, Lewa and Tusk capped the number of participating runners at 1,400. This is the number at which they can effectively manage emergency evacuations for both participants and spectators. CSOs should always consider the maximum capacity of their events and how that number also places a cap on their potential revenue.

Financial plan

- **Importance of sponsorships:** The CSO, Lewa Wildlife Conservancy, raises commercial sponsorship to finance the full operating costs of the event. This ensures all entrance fees are available to the conservancy as the basis for the earned income model.
- **Relationship of costs to participation:** The more people who attend an event, the higher the variable costs faced by the CSO. In the marathon's case, the biggest impact has been the need for additional security as the event has grown more popular, leading to a significant cost increase. However, the organisers manage to cover this cost through the Safaricom title sponsorship and co-sponsorships by many other companies. In 2017, for example, Lewa and Tusk engaged 25 co-sponsors to fund aspects of the event and/or provide goods in kind.
- **Diversified revenue streams:** The Safaricom Marathon accounts for only a share of Lewa's earned income. The conservancy also benefits from significant tourism income and an interest payment on an endowment, along with private fundraising and grant funding.

- **Financial sustainability:** Overall, the financial projections for the Safaricom Marathon are strong, based on its reputation, years of success, loyal client base, growing demand, experienced management, optimised marketing strategy, and solid economic model.

RISK MANAGEMENT

Risks and assumptions

- **Reputational risk:** Due to travel logistics, marathon participants stay on the conservancy during their visit. Requirements for accommodating all competitors and spectators is challenging and failing to provide fully functioning facilities of reasonable quality would result not only in near-term challenges but also long-term reputational damage.
- **Political and health risks:** If political events become violent, security warnings are issued, or disease breaks out in Kenya, marathon participation is likely to decline, as has occurred regularly within Kenya tourist markets over the past 10 years.

CONSERVATION TOURISM

DEFINITION

Selling conservation experiences, such as scientific wildlife monitoring, community initiatives, and habitat restoration to volunteers willing to pay to participate in conservation work.

CORE ATTRIBUTES

ADVANTAGES

- **Cost-effective:** By involving volunteers, a CSO can potentially scale up its projects or explore new models in a cost-effective way. This is especially true for work that doesn't require highly specialised knowledge or skills.
- **Enhanced goodwill:** Bringing eco-tourists into local communities often provides additional economic opportunities, thus strengthening the relationship between the community and the CSO. Such opportunities may be direct – e.g., through lodging, meals, or other trade – or they may be indirect – i.e., by enhancing the local community's natural resources, the area becomes a more attractive destination for future tourism.
- **Heightened awareness:** Conservation tourism can raise a CSO's profile, spreading awareness of its core work beyond the local area to national or even international markets. Importantly, this expanded audience may include potential donors, such as NGOs, foundations, and individuals.
- **Turning impacts inside-out:** In many regions, tourism can be a source of natural resource degradation. By engaging visitors in conservation efforts, the problem becomes the solution.

DISADVANTAGES

- **Sales and marketing:** Although a conservation tourism model may have broad appeal in a large, international market, it also must contend with a large number of international competitors. Such a venture is likely to require significant marketing and sales expertise to stand out in the crowd.
- **Capable expertise:** Successful conservation tourism models often involve sharing highly specialised knowledge and skills, which requires that a CSO have access to staff who are not only equipped with this understanding but who also have the ability to effectively communicate with volunteers who may have limited knowledge or experience. As the customer base grows, more staff with these capabilities will need to be available.

- **Seasonality:** Many conservation tourism ventures are likely to experience seasonal fluctuations in demand, depending on the region, its climate (e.g., temperature, daylight, rainfall, etc.), cultural factors (e.g., holidays and social norms of target customers), and other socio-economic patterns.
- **Regulation:** Tourism is heavily regulated in some areas and may require licensing and permits from local governments or agencies, which can be complex, time-consuming, and potentially expensive.

RISKS

- **Liability risk:** A conservation tourism model may involve unique risks for customers and employees, requiring additional insurance for general liability, property, and performance – potentially including that of suppliers or subcontractors. Before committing to such a venture, a CSO should always consult with trusted legal professionals.
- **Reputational risk:** Some key stakeholders – including important donors – may perceive conservation tourism as being at odds with a CSO's core mission or their own broader agenda. To visit many regions, customers must travel long distances via planes, which generate significant amounts of global pollution, or cars and boats, which can have more direct, local impacts on environmental degradation.
- **Political risk:** Governments around the world are increasingly focused on peoples' movements across national borders. Significant changes in government policies (e.g., travel visa restrictions), positions (e.g., travel warnings), or international relations may impact the viability of a tourism-based earned income model.



CONSERVATION TOURISM | CASE STUDY 8

ORGANISATION:
BLUE VENTURES CONSERVATION

SERVICE GENERATED:
Expeditions in which volunteers pay to assist local marine biologists, field scientists, and sociologists, primarily in surveying local marine ecosystems.

WWW.BLUEVENTURES.ORG/VOLUNTEER/MADAGASCAR

DESCRIPTION

As over-exploitation and global change threaten tropical marine ecosystems worldwide, sustainably managing these important habitats is crucial to protecting both marine biodiversity and the food security of hundreds of millions of coastal people. One significant threat is overfishing. In 2003, the UK-based NGO Blue Ventures Conservation worked with a number of local and international partners to explore innovative approaches to managing coastal resources in the southwest of Madagascar, where octopus were being heavily overfished.

Through discussions with the community, it was agreed to attempt a seven-month closure of octopus fishing on a section of shallow offshore reef in 2004. Upon reopening the section, the community found that the total size of their catches increased dramatically – as did its income. After witnessing this dramatic impact, three other community groups enacted similar temporary closures in neighbouring villages the same year.

In 2005, the national government formalised the community initiative by shutting down octopus fishing in the entire southwest region for six weeks each year. Adoption of the model continued to grow along the coast each year, and an African Development Bank project financed 50 additional closures around southwest Madagascar between 2009 and 2013. To date, small-scale fishers have carried out more than 250 temporary closures over about 450 km of coastline, with the model being replicated by communities managing other high-value, small-scale fisheries elsewhere in the country.

Communities were inspired as a result of the successful short-term closures to establish – with assistance from conservation NGOs – community-managed marine protected areas (MPAs), known as Locally Managed Marine Areas (LMMAs). These LMMAs are local marine management efforts in which communities employ traditional local law, known as Dina, to enact rules to manage the use of marine resources with a view to rebuilding fisheries and safeguarding threatened marine biodiversity. In addition to temporary closures, LMMAs often include gear restrictions, destructive fishing bans, and permanent marine reserves. In some cases communities have secured full legal rights from the government to manage LMMAs as nationally recognised protected areas. Blue Ventures is now working with partners to replicate the temporary fishery closure (or “community catalyst”) model in nine further tropical states in coastal East Africa, the western Indian Ocean, and southeast Asia.

The foundation of Blue Ventures’ work in Madagascar was its for-profit travel company, Blue Ventures Expeditions. This company, which is legally distinct from the NGO, coordinates conservation tourism expeditions in Madagascar, Belize, and Timor-Leste, paid for by volunteers who visit and participate in conservation projects, for example undertaking marine surveys within LMMAs. All profits from Blue Ventures Expeditions are channelled directly to the NGO’s conservation efforts, supporting its operating costs and project activities.

Each year, several hundred volunteers pay to join Blue Ventures’ teams in the field, assisting local marine biologists and sociologists, primarily in surveying local marine ecosystems. Each volunteer experience focuses on intensive science training, snorkelling and diving excursions, lectures, and practical exercises on coral and fish identification and reef monitoring.

Volunteers stay in a combination of local hotels and homes of local families, creating additional benefits for communities in and around the MPA sites. By providing alternative livelihoods for coastal communities, home-stays help ensure the economic benefits of tourism go directly to community families – rather than to resorts or international investors – making them an important part of the conservation and earned income strategy.

The expedition cost for each volunteer is approximately US\$3,500 for a six-week period that coincides with the octopus fishery closure. The cost includes:

- **Transfers:** for volunteers joining and leaving at the expedition start and end dates;
- **Accommodation:** for the duration of the stay in beach-front eco-cabins – each cabin has a shower and toilet with a maximum of four volunteers per cabin;
- **Three meals per day:** including tea and coffee at breakfast and lunch – all meals are prepared by local chefs using fresh local ingredients;
- **Science training:** with the team of field scientists and researchers;

- **Scuba diving** training and certification to PADI Advanced Open Water level (depending on prior qualifications);
- **Use of scuba diving equipment:** including buoyancy control devices (BCDs), regulators, weights, and cylinders;
- **Comprehensive logistical support:** including pastoral care from permanent field staff;
- **Health and safety briefings:** and support from expedition medics and dive managers.

EARNED INCOME MODEL

- **Expeditions:** Blue Ventures Expeditions (the for-profit entity, BVE) was established and is owned by Blue Ventures Conservation (the CSO in this case). BVE coordinates conservation experiences for volunteers who pay to visit and participate in conservation projects in Madagascar, Belize, and Timor-Leste. All profits generated are directly transferred to fund the CSO's conservation efforts, including operating and project costs. For the year ended 30 June 2017, BVE made a charitable donation of £35,000 to Blue Ventures off net income of £721,858. Furthermore, BVE's operations, management, and website are shared with the CSO, adding considerable benefit beyond the donation through cost-sharing (e.g., contributing to the salaries of key staff, offices, facilities, digital presence and marketing).

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Capitalizing on strong travel interest:** Blue Ventures Conservation noted that volunteers, donors, and other parties had expressed interest in visiting their projects, leading to the establishment of the earned income business to coordinate expeditions. CSOs should always identify existing demand for a product, service, or other offering before exploring an earned income model.

Community and stakeholders

- **Necessary infrastructure:** Accommodations and a fully equipped and certified dive centre are required to host volunteers. Although accommodations were already established at Blue Ventures Expeditions' sites, the company had to finance and build dive operations at a cost of approximately US\$50,000 per location, plus dive boats (up to US\$40,000 per site). In developing an earned income venture, CSOs should consider the community resources that are available, including the existence of needed infrastructure, key suppliers, potential partners, etc.
- **Home-stay benefits:** Blue Ventures Expeditions volunteers stay in local homes wherever possible, providing both customers and communities with opportunities for economic and cultural exchange. Since 2003, staff and volunteers have spent more than 150,000 tourist bed nights supporting local providers of accommodations. Hosts introduce their guests to the

culture, cuisine, and customs of their community, and generate a reliable income stream in return. In Belize, for example, Blue Ventures Expeditions volunteers have provided US\$300,000 in income since 2010 to the Sarteneja Homestay Group. As a result, local families are able to eat – rather than sell – more of their fish catch. This illustrates the importance of identifying earned income opportunities that supply benefits not only to the CSO, but also to the communities it serves.

INTERNAL FACTORS

The concept

- **A targeted offering:** Blue Ventures Expeditions provides volunteer tourists with a unique opportunity to visit Madagascar, Belize, and Timor-Leste, to become immersed in the local culture, and contribute to development projects that will help sustain local communities. Volunteer tourism is neither a holiday nor a job, but it does involve a lot of work; thus, BVE tends to attract customers who are well prepared for an experience that involves more challenges and fewer luxuries than a typical vacation, which sets the venture up to succeed.

Marketing plan

- **Marketing and sales:** Blue Ventures Expeditions relies on strong marketing and sales in a highly competitive international conservation tourism market. In addition to hiring dedicated staff for this purpose, BVE also has established a high-quality and informative website,³⁹ a Facebook page,⁴⁰ video sales documentaries,⁴¹ and an international media campaign.⁴² Due to the high, commercial-quality production and broad appeal of these efforts, they also serve to raise visibility for the NGO's core conservation work.

Management and governance

- **Established relationships:** Blue Ventures Expeditions has established long-standing community relationships, forged over 15 years of tourism and conservation work, to create a trusting partnership dynamic upon which its earned income model depends. It would be difficult for a new travel company to replicate this model due to the extensive and time-consuming groundwork involved.
- **Leveraging partnerships:** Blue Ventures Conservation is a relatively small organisation that strives to respond quickly and effectively to address the needs of the communities it serves. As a result, it works with more than 30 partners across ten countries, which provides a variety of benefits. First, partnerships allow Blue Ventures Expeditions to outsource activities that fall outside its area of expertise, improving its focus on what it does best. Second, partners help the company expand its reach and increase its impact while still retaining an innovative, entrepreneurial culture.

³⁹ www.blueventures.org/volunteer/why-choose-blue-ventures/#organisation

⁴⁰ www.facebook.com/blueventures/

⁴¹ <https://vidmoon.co/video/UWLZIXFUQABsRH>

⁴² <http://www.telegraph.co.uk/travel/activityandadventure/740850/Avoiding-the-guilt-trips-on-a-feel-good-holiday.html>

Operations and timeline

- **Tourism coordination:** All volunteers are expertly hosted by local guides who coordinate their experiences with the science teams. These professionals are well trained, including on what to do in medical and other emergencies. CSOs should consider any training or certification that may be required by employees of their earned income venture.
- **Shared resources:** In addition to providing direct financial support to Blue Ventures Conservation, the for-profit company also helps the NGO by sharing key operating costs, such as field staff, offices and overhead, and more. A “shared services” approach can provide a CSO with the ability to centrally manage resources, gain insight into the cost-efficiency of each department, and reduce total costs for the organisation.

Financial plan

- **Financial sustainability:** A well-managed social enterprise has the potential to tap into a growing international market for volunteer tourism – and specifically for conservation tourism models. However, the market isn’t easy. Profit margins are thin and competition is fierce – including from less scrupulous rivals willing to brand low-quality ecotourism as “conservation tourism.” Because of this dynamic, Blue Ventures Expeditions has seen only modest growth in its 15 years.
- **Regional diversification:** In addition to considering multiple revenue drivers, CSOs should also explore the possibility of expanding an existing offering into new regional markets. For example, due to its success in Madagascar, Blue Ventures Expeditions expanded into Belize and Timor-Leste, thus mitigating against risks associated with operating in a single geography.

RISK MANAGEMENT

Risks and assumptions

- **Community buy-in:** Blue Ventures Expeditions’ earned income model relies heavily on community support, which represents a business risk if the conservation project fails to provide local benefits or the company’s relationship with the community otherwise sours. To mitigate this risk, the model helps generate income for local communities through three income streams:
 - **Value from conservation project:** Based on 28 closure events, villages generated an average octopus-fishery income of US\$597 during the 30 days before the closure, and US\$1,407 in the 30 days after the closure reopened – an increase of 136 percent per closure period.
 - **Home-stay benefits:** In Belize, for example, local communities have earned over \$300,000 from home-stays included in the volunteer experience.
 - **Employment opportunities:** Community members are employed at the hotels used by volunteers, and at the dive centres.

ENDOWMENTS

DEFINITION

Endowments represent lump sums of money donated to an organisation. That lump sum of money – called the principal – is invested so that the total value of that principal increases over time. The additional amount of money made on the principal through the investments is known as income. Typically, an organisation will spend that income – for example, on its operating costs. The investment process is handled by experts to ensure investments will – or should – yield the required return without taking on too much risk.

Example

A donor leaves US\$10 million to a CSO. The donor places limited restrictions on how this money can be used, provided it is used in the context of conservation. The CSO decides how much money it wants to use each year from the endowment. The CSO has annual operating costs of US\$750,000 and would like to use the endowment to support one-third (US\$250,000) – or approximately 2.5 percent of the endowment. Accordingly, the CSO would hire investment professionals to invest the principal and target a 3.5 percent return. Provided the investments yield the desired return, the CSO would then be able to fund one-third of its annual operating costs through an endowment on an ongoing basis.

CORE ATTRIBUTES

ADVANTAGES

- **Steady income:** When an endowment is managed by an experienced investment professional, it can be a source of regular, recurring – and often unrestricted – income, barring a significant global economic downturn.
- **Reputational benefits:** Endowment funding sends a signal that a CSO is on stable footing and will be around for the long term, helping it establish deeper and more enduring relationships with communities, donors, and others.
- **Access to new funders:** Some donors are looking for opportunities to not only make a near-term impact but to leave a long-term legacy. Endowment funding enables a CSO to tap into this unique donor class.

DISADVANTAGES

- **Not always unrestricted:** Donors often place restrictions on the proportion of the income that can be used each year, or on the types of projects or costs on which the money may be spent.

- **Lengthy process:** Finding donors to raise an endowment fund can require a significant amount of time, money, and resources.
- **Less useful in the near term:** Because endowment principal is being invested to cover ongoing expenses over the long term, it cannot be used for other purposes – for example, as so-called “bridging finance” if a CSO runs into financial trouble.
- **Management expenses:** The costs involved in hiring professionals to manage the investments can be high.
- **Requires significant principal:** If an endowment is too small, it will not generate sizeable income and therefore may not be able to efficiently contribute as a revenue stream, while still being expensive to manage.

RISKS

- **Investment risk:** Investments are inherently uncertain, and thus may not generate the expected return.
- **Legal complexity:** It is important to ensure the fundraising for and subsequent execution of the endowment fall within all regulatory laws of the country where those activities take place.



ENDOWMENTS | CASE STUDY 9

ORGANISATION:
BORANA CONSERVANCY

WWW.BORANA.CO.KE

MODEL USED:
ENDOWMENT

DESCRIPTION

During the 1990s, a significant proportion of land in the Laikipia region of central Kenya was managed as livestock ranches, such as Borana Ranch, where profit margins were low and subject to drought cycles and volatile export markets. Livestock ranching and wildlife conservation were often in conflict, creating the need for a new approach. In 2007, Conservation Capital planned and led a process to split Borana Ranch from a wider collective of agricultural ranches bordering Borana to form what is now Borana Conservancy. It has since transformed into a financially independent, multi-use wildlife and rhino conservancy.

The mission of Borana Conservancy as a not-for-profit conservancy is to “provide a sustainable ecosystem, in partnership with [its] neighbours and community, for critically endangered species on the brink of extinction. [Borana Conservancy’s] holistic approach commits tourism, ranching, and other enterprise to building local livelihoods and enhancing ecosystem integrity.”

In order to finance the initial formation and ongoing operating costs of Borana Conservancy, a hybrid corporate structure was formed of two entities:

1. **NON-PROFIT ENTITY:** Controlling all conservation management operations such as road, fence, and water hole maintenance;⁴³
2. **FOR-PROFIT CORPORATION:** Controlling all earned income activities on the conservancy.

Part of the business plan for the for-profit corporation included creating four “concessions” – i.e., plots of land – on which wealthy individuals could develop premium residential property. The money raised through selling these concessions was used to establish a conservation trust or endowment. An additional component of each housing concession requires each house owner to pay an annual “concession fee” into the endowment, which is used to finance costs of the non-profit entity to manage and maintain the reserve.

The combination of these two payment mechanisms into the endowment has given Borana one of the strongest balance sheets of any conservancy of its type. As a result, its financial contributions to the local and national economy have increased each year to help fund a variety of health, education, and infrastructure initiatives.

EARNED INCOME MODEL

- **Conservation endowment:** As part of the wider business plan developed for Borana Conservancy, four super-premium residential property development concessions were traded for a collective value of more than US\$10 million. These funds were used to establish a conservation endowment to secure the wider conservation management operations of the conservancy.
- **Conservation fees:** Additionally, each of nine concessions (the four super-premium concessions, plus five others held by Borana Ranch) generates an inflation-adjusted conservation fee for the conservancy of US\$100,000 per year, which is used to finance conservation management costs.

KEY CONSIDERATIONS

EXTERNAL FACTORS

Market analysis

- **Funding the principal:** Raising an endowment fund can take years of effort and cost with no assured positive outcome. They should not be invested into before a thorough assessment and undertaking of the commitment has been completed by the CSO. For example, in 2001, the Madagascar Fund for Biodiversity set a goal of raising an endowment fund of US\$50 million and it took 12 years to reach that goal. In Borana’s case, it chose to sell existing assets to raise money for its principal.

⁴³ In order to support its work in 2016, Borana Conservancy spent approximately US\$500,000 on staffing (including wildlife protection, wildlife monitoring, and community support), US\$60,000 on vehicles and equipment, and US\$160,000 on overhead (for example, land leases and legal support). In total, for 2016, its expenditure was US\$727,000.

- **Competition:** Raising funding – especially for high-value endowments – can be highly competitive. Endowments are generally most successful when designed around a specific mission rather than in order to raise general unrestricted funding without a clear beneficiary. In Borana’s case, it was able to raise funds by offering a unique opportunity to buyers.

Regulatory environment

- **Regulation:** Borana worked with legal and financial professionals to ensure its fundraising efforts and subsequent administration of the endowment complied with applicable regulatory laws.

Community and stakeholders

- **Economic impact:** Borana has not only become a thriving conservancy, it also runs tourism, livestock, and conservation operations, creating jobs and other benefits for local communities. CSOs should always consider the impacts that the establishment of an endowment may have on relationships with external stakeholders, including funders. For example, a CSO’s other donors may believe it no longer needs their money.

INTERNAL FACTORS

The concept

- **Leveraging assets for the long term:** In Borana’s case, valuable property and associated property rights were owned directly by its shareholders, enabling it to establish an endowment that would help support its long-term operating costs by making concessions for property development while retaining conservancy management rights.

Marketing plan

- **Exclusivity:** The Borana opportunity provided a highly exclusive package for very wealthy investors to build their own property on the conservancy. The number of properties was limited, thus increasing the exclusivity value for the investors.
- **Natural assets:** The estate is home to “the Big Five” among African wildlife (lion, leopard, rhinoceros, elephant, and Cape buffalo) and therefore is highly attractive to tourists and potential developers.
- **Access:** Borana’s business plan ensured that all houses have access to private airstrips catering to the owners and their guests.

Management and governance

- **Strong governance:** A governance body, similar to a group of trustees, is almost always required to govern the endowment mandate described in its founding statutes, as well as with allocating the investment income generated by the principal.
- **Legal structure:** The legal structure and constitution of the governance body will be determined by the laws of the country where the endowment is registered. Professional legal advice and services should always be used when structuring an endowment.
- **Organisation and professionalism:** Borana worked with outside experts to gain its independence, design its organisational structure and fundraising offering, and establish and maintain its endowment. Most CSO's will also require experienced and driven campaign managers to build a network of targeted financiers in raising money for the endowment's principal.

Operations and timeline

- **Duration:** Even when offering a unique opportunity like Borana's, the planning and execution of a fundraising campaign can take many years, including the solicitation of funders. This requires long-term energy, commitment, and management.

Financial plan

- **Investment management:** A qualified and regulated investment professional should manage the principal balance of the endowment in order to generate the financial return. The governance body should select a professional based on his or her track record and the investment preferences of the endowment mandate. Generally speaking, higher-risk investments will generate a higher return, while lower-risk investments are more likely to protect the principal while providing less income.
- **Financial sustainability:** Assuming the underlying capital held within the endowment is preserved, the long-term financial sustainability of an endowment model is extremely strong. Although the income generated by the endowment will likely vary from year to year, with professional management and a well-developed investment mandate, a CSO should receive income on a regular basis.

RISK MANAGEMENT

Risks and assumptions

- **Risk of isolation:** Borana's super-premium developments are unlike anything else in the region, which makes it distinctive not only to buyers but also to surrounding communities. There is a risk that – in the absence of meaningful stakeholder outreach – Borana could become isolated from neighbours, such as Lewa Wildlife Conservancy (see Case Study 7).

CONCLUSION

As a practical reality, not every CSO will be capable of generating meaningful forms of commercial revenue or successfully implementing an earned income model. Often a CSO's options will be limited either by factors outside its control, such as market demand or enabling legislation, or by internal factors, such as restricted financial or human resource capacity.

For many CSOs, building an earned income model is a goal that can be worked towards in the medium to long term. For others, a smarter option may be to simply reevaluate the current funding and operating model and update their donor-based fundraising strategy accordingly.

For those CSOs in pursuit of self-generated revenue, the following recommendations – drawn from the case studies presented in this document – should be reflected upon before committing resources to an earned income venture.

1. Engaging experts

As a general rule, CSOs should always access professional advisors to guide them through the key steps of business planning, due diligence, legal corporate structuring, financial planning, and financial management (for example, tax considerations). Expert advice not only reduces risk and liability, but increases the likelihood of an earned income model being successful. Often, experienced business advisors play a valuable role on formal advisory boards.

2. Business planning and performing due diligence

The business planning process outlined in this paper – together with the learnings from the case studies – should be fully considered and applied to a CSO's specific circumstances and the proposed earned income model. This exercise will help the CSO perform and document a detailed analysis of the relevant external factors, internal factors, and risks – ideally in the form of a formal business plan. CSOs should keep in mind the main purpose of this document is to conceptually describe the minimum requirements, considerations, and risks CSOs must take into account if considering earned income funding models. It is not, nor is it intended to be, comprehensive.

Although the case studies provide a learning resource, they should be used as an illustrative platform for understanding the design and development steps and components of each earned income model, not as a template. Key takeaways from the case studies should inform CSOs in undertaking their own research and analysis and in better understanding the key factors necessary to successfully implement each model.

3. Building an enterprise culture

Strong and experienced leadership plays a fundamental role in any organisation's success. When pursuing an earned income venture, leadership support is especially important in catalysing the cultural change and commitment necessary to achieve success.

Given their historic dependence on grant funding – as well as the potential costs and resources involved in adopting a commercial approach – it can be challenging for a CSO's senior managers or advisory boards to think “outside the box” and develop innovative earned income opportunities. To overcome this barrier and meaningfully build an earned income venture, it is critical that CSOs have a charismatic, responsible, and entrepreneurial leadership group that is not afraid to explore new funding models. Long-term perseverance, commitment, and an ability to respond well to failure are notable characteristics required to maintain momentum within an earned income venture.

Senior managers or advisory boards responsible for key decision making must commit time, capacity, training, and resources towards designing, implementing, and maintaining these earned income models. Ideally, they should be experienced, with a demonstrated track record of successful projects or earned income ventures in line with an approved business plan. This plan will undoubtedly evolve over time in response to changing conditions inside or outside the CSO's direct control. When a CSO's leadership is able to draw on relevant experience and establish a culture of exploration, learning, and adapting to change, the organisation's ability to succeed dramatically increases.

4. Telling the story

Effective communications are crucial. As a general rule, when assessing earned income funding opportunities, CSOs tend to lack experience at communicating their values and how these relate to the funding model. The more accomplished they become at telling the relevant aspects of their story to the right people at the right time, the more likely they are to be able to take advantage of what revenue-generating or investment opportunities may exist.

5. Avoiding mission drift

Undertaking any earned income model, including those referenced in this report, is a time- and resource-consuming process. CSOs need to carefully determine if this process will negatively impact their ability to focus on their core mission and objectives. Mission drift could compromise donor relationships or confidence, detract from key activities, and negatively impact local communities.

If CSOs decide to develop an earned income enterprise of any kind, it is imperative that they regularly assess how this process is influencing their ability to generate positive impacts from their core work.

6. Initial capital investment

Launching an earned income venture typically requires start-up funding, with the amount depending on the size of the operations budget and the scale of a CSO's ambitions. This is where existing assets – especially well-established, well-maintained relationships – become critical. Whether a CSO is looking for grant funding or private-sector partnerships to finance its earned income model, the start-up investment required will be easier to acquire through a strong, existing network of professional contacts. Nevertheless, even large sums of “seed funding” do not guarantee success and may even risk the donor relationship if the venture is not well managed.

7. Governance and transparency

CSOs rely on public trust to do their most important work, which is why they must maintain their commitment to ethics and accountability even when – or, indeed, especially when – pursuing earned income. Revenue-generating activities present new challenges for CSOs, including structural complexity, potential conflicts of interest, and unfamiliar risks. Beyond what the law requires, CSOs should always consider the impacts of their earned income venture on key stakeholders, including local communities, donors, and others.

Maliasili & Well Grounded Resources

Maliasili and Well Grounded are committed to supporting their CSO partners and clients in assessing earned income models. Specific due diligence and business planning tools and templates are available to CSOs upon request from each organisation.

GLOSSARY

Barriers to entry: Obstacles that prevent or make it more difficult for a business to enter a particular market. For CSOs seeking to start an earned income model, such obstacles may include the cost of purchasing expensive equipment or limits on access to land or raw materials.

Business plan: A document that builds on the lessons learned in the business planning and due diligence process, formally outlining the specific goals, strategy, and tactical plans of the enterprise, along with background on the organisation's leadership. A successful business plan should provide strong support for the venture's ability to become established as a viable and profitable ongoing entity and may be required by key sources of start-up funding.

Community conservancy: Land set aside by community or individual landowners or by corporate bodies for the purposes of wildlife conservation.

Due diligence: The process undertaken to understand the operational requirements and contextual considerations involved in the design and successful implementation of an earned income model. The due diligence process helps determine the commercial potential of the model and whether a CSO has the necessary assets in place or will be required to develop them. The main purpose of due diligence is to ensure comprehensive resource planning and risk management has been completed **before** an earned income model is committed to. Also known as business planning.

Earned income: Describes revenue from business, trade, investment or activities that create profits that can be used to support the work and operations of a CSO. Earned income does not include grants, charitable donations or subsidies.

Enterprise risk: Risk of loss associated with investing in a particular product or company (e.g., mismanagement, creditworthiness, etc.).

Fixed and variable costs: Fixed costs remain the same regardless of production (e.g., rent, equipment, etc.). Variable costs change depending on the amount of production (e.g., wages, materials, utilities, etc.).

Lessee and Lessor: A lessee is the person or entity who rents land or property from a lessor, who is typically the property owner. The lessee is also known as the "tenant." By law, both parties must uphold the specific terms defined in the lease agreement.

Limited company: A legal entity that can be established for receiving and managing profits from certain earned income models. Generally limited companies are owned by shareholders, which may include a CSO. Shareholders benefit from the profits generated by the company. They normally have directors or senior executives responsible for managing the company.

Market risk: The risk of loss due to factors that affect the entire market—not just the specific entity (e.g., interest rates, price inflation, etc.).

Profit: The financial benefit or income generated from participating in earned income activities minus the costs incurred in developing and delivering the product or service.

Profit margin: The amount by which revenue exceeds expenses. If a CSO charges 10,000 shillings for a product that cost it 6,000 shillings to produce, its gross profit margin is 4,000 shillings or 40 percent.

Revenue: The money a CSO receives for its product, service, or other offering—also known as “sales” or “gross income.” This is the figure from which expenses are subtracted to determine “profit” or “net income.”

Social enterprise: An organisation that uses business or earned income models to create positive impacts for societal and environmental well-being in addition to financial profits.



EARNED INCOME, ENDURING IMPACT

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FOR AFRICAN CIVIL SOCIETY ORGANISATIONS WORKING IN
NATURAL RESOURCE MANAGEMENT & CONSERVATION**

WELL GROUNDED & MALIASILI

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