



# Generating Earned Income

**From Mobilizing Resources and Support in Foundation Building Sourcebook: A practitioners guide based upon experience from Africa, Asia, and Latin America**  
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## Section 7    **Generating Earned Income**

This section explores two approaches foundations have used to generate their own resources.

Example 1      Products with a Message  
*Child Relief And You (India)*

Example 2      An Investment Company  
*Kagiso Trust (South Africa)*

What Is the Role of Earned Income?

Not many foundations have yet taken advantage of market approaches to earning income that go beyond investing their endowment corpus. This may be related to the legal framework in some countries that discourages nonprofit organizations from entering into competition with businesses, the lack of access to good opportunities and business skills or a strategic decision on the part of the board. It is increasingly recognized, nonetheless, that earned income from the sale of products, services or intellectual property can be a source of funding and can help expand the base of funding for an organization. Because profits from business activities are not tied to particular programs or the wishes of donors, money can be used at the discretion of the foundation and therefore represents a very desirable stream of income.

On the other hand, making money is a gamble. It requires appropriate skills and talents and is a full-time job in itself. Even then, a foundation must identify an important niche in which it can be competitive. It must be prepared to excel in a business environment. It must invest capital, time and effort into its activities. Success is not guaranteed.

How Do Foundations Earn Income?

The foundations in this section capitalized on something they could do well. They drew on private sector expertise from their network—board, staff and volunteers to launch or gain participation in money-making ventures. Some of the elements of their programs were:

- Capitalizing on staff expertise
- Capitalizing on a market niche or market inefficiency
- Providing a specific benefit or service to members or constituents

They have sought to earn income in ways that would also advance their social agenda. In some countries, a prerequisite for a tax reduction or exemption on

money earned is demonstrating that this is true. In general, when the proposed activity is closer to the organizational mission, it means the foundation will have greater access to the talents, skills and resources it needs to make its venture profitable. It will also be able to better mobilize the support of its constituents if they believe the business will complement the foundation's nonprofit activities. A drawback, however, is that adopting profit-based approaches toward the foundation's mission can divert resources towards activities that are less effective solutions to social problems in order to mobilize new resources.

#### What Kinds of Earned-Income Activities Are Pursued by Foundations?

The kinds of activities a foundation could pursue are as diverse as the market and legal environment will allow. One obvious activity is a credit program. Some foundations, for example the Foundation for Higher Education in Colombia, see loans and credit as a logical complement to grants because they induce NGO partners to raise additional funds and return funding to be used by other NGOs. The use of credit approaches by foundations is discussed in chapter 3.7. The appendix also lists several resources for those interested in pursuing this topic.

Another obvious way to earn money is to produce and sell a product. Child Relief and You (CRY) produces and sells greeting cards that it believes, in addition to earning money, increase the awareness of the public about the needs of Indian children, its primary objective. The case of the Kagiso Trust is quite different. Kagiso was heavily reliant on a single source of funding, the European Union, which it lost as a donor when it achieved its primary social goal—the abolition of *Apartheid*. It had, however, very good access to human capital that was already in high demand in South Africa. It built on its access to trained and educated black communities to create an investment company that would help create critical black management in the private sector, thereby, moving into a new stage in its work to promote an equitable South Africa.

#### Summary Points

*A successful project does not need to start big.* CRY began as a start-up effort of an individual and friends to sell greeting cards to raise money for children's programs. They rapidly built on their successes to raise funds for the organization and grow into a much larger size.

*Staff with business skills are a key to success but may be difficult to attract and keep.* In the case of both CRY and Kagiso, recruiting and maintaining staff with top business skills was an issue. CRY has continually struggled to keep staff who are lured by higher salaries in the private sector.

*The business should have distinct objectives and management.* By establishing a separate arm as a for-profit company, Kagiso was able to position itself to compete with other profit companies.

## Example 1

Products with a Message  
*Child Relief And You (India)*

*How an Idea Grew*

Rippan Kapur, an employee of Air India, established Child Relief and You in 1979 with a group of six friends to improve the life of Indian children. Drawing on their own skills and those of others they involved, Kapur and his colleagues began a life-long fundraising effort with an event—Buy a Brick; Build a School—that raised 114,000 rupees for the Shilpalaya Technical Institute. Building on this idea (one of their first cards carried the name of the fundraising event) in 1980, they launched a Cards Division to produce and sell greeting cards as a way of raising resources for and awareness about India's children. Kapur hoped to demonstrate that collective effort among individuals could make a difference and that individual commitment could be a foundation of support for impoverished children.

For its first efforts CRY relied exclusively on donated products and services from artists, paper merchants, professional advertisers and publicists to print and market its cards. Local artist Sanat Surti donated the first two designs. CRY sold over 30,000 cards. Although it had no sales force of its own, it had a clear cause, energetic volunteers and a convincing founder. In 1981, CRY hired its first employee, who worked on the dining room table in the home of Kapur's mother. CRY was able to make and sell cards free of government intervention, except for a short period between 1983 and 1984 when a law was passed prohibiting trusts from running for profit activities. Over the years, CRY has received sales tax and import duty exemptions from both state and national governments.

The early staff members of CRY were not business professionals; they learned on the job. They quickly discovered the need for business and marketing expertise. Many of CRY's employees now have for-profit management expertise or MBA training. Initially retaining these staff members was difficult. Since CRY could not offer competitive salaries, it relied on the extension of the volunteer idea to keep its employees in the organization. Several of CRY's five Trustees come from the commercial sector, including a managing director of an advertising company, an architect/designer, a lawyer and a financial consultant. Likewise CRY's management is a group with a mixed professional background. Many managers have been with CRY for a number of years, some with strong backgrounds in social science, others with marketing experience.

CRY grew to over 200 employees and offices throughout India by 1999. Its Resource Generation Department has a 100-person staff, divided into two areas: Corporate Partnerships, which raises resources from companies and businesses through product sales and donations, and Individual Partnerships, which raises resources from individual donors.

Following the death of Kapur in 1994, CRY shifted its administrative headquarters and Program Support Division from Bombay to Delhi. The CRY product accounts, manufacturing, distribution and stock warehouse all continue to be managed from its office in Bombay. An in-house team of four marketing and sales representatives develop and test new products for its product line. CRY's team of designers solicit donated artwork from artists throughout India. CRY's revenue from its product

sales fluctuates between 20% and 50% of its entire income, the rest being made up primarily by donations and some endowment income.

Up until 1990, CRY specialized in the production of greeting cards and calendars. Following on a demand for more products, over the next decade CRY added telephone and address books, scribble pads, presentation folders, postcards, children's books, mobiles, puzzles and paper toys in addition to several new lines of greeting cards. However, the greeting cards have remained the largest single source of revenue. CRY products are stocked and sold by a network of independent retailers throughout India.

#### CRY Card and Calendar Sales (1990-95)

unit sales

Year	Cards (Millions)
1990-91	2.95
1991-92	4.20
1992-93	4.7
1993-94	5.2
1994-95	4.2 <sup>74</sup>

#### CRY Products

##### How a free market economy can free...

In the year 1997-98 we raised 5,470,000 rupees through the sale of 5,300,000 cards and other products. And made at least twice that number of people aware (for every product bought and received) that there are millions of Indian children deprived of access to basic education and health care.

In fact, an undercurrent of this awareness is embodied in the very process that goes into the making of a CRY card. The actions of several motivated people link to form the chain of goodwill necessary to bring a CRY card home to you. Production of the CRY card is one job done, letting people know about it is the other. While sponsored advertisements do give a boost to product sales, it is the CRY product catalogue that remains our most persuasive salesperson. Every year our product catalogue helps us raise resources from hundreds of individuals and corporate houses. Effective production and mailing of the catalogue is expensive, which is why we make a concerted effort to get support in this area. In the year 1997-98, HDFC and ICICI made a valuable contribution to our work by sponsoring a total amount of 700,000 rupees that covered the entire costs for printing and mailing the catalogue. A late addition to our catalogue last year were the *Vande Mataram* cards. The design, using an abstract version of the Indian Tricolour painting by Thota Tharani was donated by *Bharat Bala* Productions (the people who filmed A. R. Rahman's *Vande Mataram*.) Giving us the rights to use the same was their way of saluting 50 years of Indian independence.

Other ways that CRY products are marketed are through our committed sales team and retail outlets.

Last year we did the groundwork for what will soon be the latest addition to our retail chain - The CRY Shop at Bombay. As the name conveys, the CRY Shop represents our first attempt to initiate our very own retail outlet. While it will stock CRY products, the shop will primarily be an attempt to market the creative works of NGOs working with underprivileged communities thereby enabling them to generate resources for the people they represent.<sup>75</sup>



CRY's Play and Learn Series for Children (table mats with puzzles or a clock face, mobiles, posters, children's books). The four-fold catalogue, which has a detachable order form listing all the products, was sponsored by four local companies.

The greeting cards catalogue, *CRY Cards Say You Care*, shows colored photographs of all the prints, as well as a desk calendar, a telephone and address book, reproductions of miniatures figures, and a presentation folder for letter papers, envelopes, and cards with envelopes. The 16-page full-color booklet was sponsored by Citibank.

The production and postage of another larger catalogue in 1995 advertising CRY products was supported by the Industrial Development Bank of India. In addition to listing the products, to which have been added scribble pads with decorative covers, post cards, and decorative prints, it devotes a page of thanks and prints the names of all the local people who helped—artists, designers, photographers, private collectors, museums and galleries, art consultants, advertising executives, photographic artists, typesetters, printers, courier services, and so forth.

Managing the growing products industry has been a “process of learning” according to Nomita Abreu, finance coordinator for CRY USA who worked for CRY in India for 11 years before coming to the US. “We learned as we went along,” she recalls.

Beyond the income it earns from the program, CRY also counts two key outcomes from its sales of cards and other items that bear its name and pictures and sayings of emotional appeal. For one thing, the messages appeal to people and raise their awareness about the plight of children and their commitment to do something to make a difference. Beyond this, people learn about CRY and begin to associate it with work on the behalf of children. This recognition can translate into both increased resources and increased capacity to make a difference—as people begin to seek it out. It also means that others will want to be associated with CRY and its name and logo will have a value of their own.

## Example 2

An Investment Company  
*Kagiso Trust (South Africa)*

The Kagiso Trust was founded in 1986 with an aim of helping South Africans to overcome a system of institutionalized racism known as *apartheid*. A large percentage of its budget was covered by the European Union, which wanted to provide assistance to South African groups but could not do it through the government. In 1994, when South Africa officially dismantled *Apartheid*, Kagiso began rethinking the role that it would play. Kagiso knew that it would lose its support from the EU as government channels for this assistance were established. Taking advantage of new economic opportunities, Kagiso turned its focus to assisting the newly enfranchised segments of the South African population to develop and reach their full potential. Business and capital were seen as key to this strategy.<sup>76</sup>

*An Investment Business*

Beginning around 1990, Kagiso was approached by many business people for assistance in bringing formerly disenfranchised people into business management. Kagiso provided these companies with free advice and helped them to build promising black management. It was successful enough at playing this role that it began to consider the idea of setting up a for-profit business consultancy. At the end of 1993, the trustees acted on this idea by creating the Kagiso Trust Investment Company (KTI), a company that would try to realize the potential of the black business community through participation in joint ventures. KTI was established as a fully commercial entity, managed on a professional basis. KTI describes itself thus:

KTI was born of a vision by the trustees of Kagiso Trust to create a vehicle that would identify and harness business opportunities to participate in joint ventures with suitable local and international investors.<sup>77</sup>

In order to raise the capital they needed for their first investment, the founders took their idea to an American bank after local banks were not helpful. The bank was interested because it felt the founders had established their credibility in managing Kagiso Trust. In addition the bank believed the black empowerment approach would be a successful investment over the long term. It evaluated a loan on strictly commercial terms, finally approving it because it was convinced that the first planned investment was a well-run, ongoing insurance company listed on the stock exchange. Since the company was already serving the black community, the bank felt it was a good candidate for KTI's approach.

This loan, together with a modest investment from Kagiso Trust, provided the start-up capital for the investment company. The terms of the loan were such that KTI would have a number of years to invest the money before it would need to pay it back. In the end, the acquisition was successful enough that KTI was able to pre-pay the loan.

While the KTI operates as a commercial entity, it aims to secure dividends that will be channeled to Kagiso Trust to benefit disadvantaged communities.

A KTI brochure states:

Our objective is to ultimately generate sufficient dividend flow to provide Kagiso Trust with some measure of self-sufficiency, thus enabling the Trust to sustain its investment in development projects targeted at uplifting disadvantaged communities.<sup>78</sup>

KTI's Trustees are both business people and development practitioners. It is managed as a separate entity from the Kagiso Trust, although the two maintain good connections and share joint trustees. In terms of seeking to add value, "change management" is a major factor for KTI. It seeks to invest in companies where it is able to positively influence the organization's outlook.

The CEO, Eric Molobi, says, "The key to the potential growth of our economy lies in the formation of independent businesses run by blacks, but also in partnerships and other forms of cooperation with established businesses."<sup>79</sup> KTI seeks to invest in companies with sound management that recognize that the introduction of new, black colleagues will be mutually beneficial. Black managers are afforded opportunities denied them in the past and new doors are opened for the company to markets previously ignored by or closed to them.

KTI seeks an active role in managing its investments, but prefers to sit in constellations where it knows that its expertise will complement that of other players. It also seeks to involve banks and management in the investment, seeing this as a way of guaranteeing good returns. An ability to enter into mutually beneficial partnerships with other companies has been one of KTI's strengths from the beginning. By 1998, KTI had significant holdings in a number of companies, including:

- Kagiso Media Limited (40%)
- Kagiso Khulani Supervision Food Services (20%)
- Kagiso Financial Services (42%)
- Kagiso Ventures Limited (100%)<sup>80</sup>

Because the Board of the Kagiso Trust felt that it was imperative to reinvest earnings in the company to allow it to grow and become successful, it decided that Kagiso should not draw from KTI's earnings as support in the early years of the company. While its investment in KTI has grown, Kagiso must still rely on other income sources for the present, including earnings from a national lottery and fundraising efforts.

#### *Kagiso Financial Services*

Given the recognition of its name and the reputation of its board—all of whom have a strong social record—KTI has been able to broker a number of deals that have translated into formidable business partnerships. For example, it created Kagiso Financial Services as a joint venture with UK merchant bank NM

**Rothschild. The Kagiso Trust is an equal partner with the Rothschild Group in the deal (each own 42.2% of the company).**

KFS brings together the local knowledge of Kagiso Trust, the global reach of the Rothschild investment banking group and the domestic and international equity distribution capability of ABN AMRO Securities (SA) (PTY) Ltd.

...

Accordingly KFS is able to combine domestic and international knowledge and expertise to provide innovative advice and execution and to tailor transaction structures to meet specific needs of our South African clients, whether domestically or internationally.<sup>81</sup>

**The services of the financial company build on both the international reputation and expertise of Rothschild, which operates in 27 countries and is the 8<sup>th</sup> largest stockbroker on the Johannesburg market,<sup>82</sup> and on the strong local name and networks of the Kagiso Trust. The services it provides are:**

- Full access to the Rothschild and ABN AMRO Rothschild international network
- Professional and dedicated investment banking services in South Africa with a proven track record in applying the latest international techniques to domestic and cross-border transactions
- Knowledge of the South and Southern African markets, in addition to full exposure to all international money-market centers
- A professional advisor that fully reflects the spirit and professionalism of the new South and southern Africa<sup>83</sup>

## References

<sup>74</sup> *CRY Annual Report 1994-5.*

<sup>75</sup> *CRY Annual Report 1997-8.*

<sup>76</sup> The case description draws from Schütte, Lauren Blythe. *The Kagiso Trust (South Africa): A Case Study.* New York: The Synergos Institute. 1997.

<sup>77</sup> Kagiso Trust Investment Company. Company brochure.

<sup>78</sup> *Ibid.*

<sup>79</sup> Schütte, *op cit.*

<sup>80</sup> Letter from J.J. Njeke, Managing Director, Kagiso Trust Investment Company. August 1999.

<sup>81</sup> *Credentials*, Kagiso Financial Services, N M Rothschild & Sons Limited, pg. 2, 1998.

<sup>82</sup> *Ibid.*

<sup>83</sup> *Ibid.*

