

# Case Studies in Social Enterprise

A PUBLICATION OF  
**COUNTERPART**  
INTERNATIONAL, INC.

## *Counterpart International's Experience*

September 2002



*A chef prepares a meal at Kovcheg Café, a Mercy Charitable Foundation social enterprise in Zhytomyr, Ukraine*

1200 18<sup>th</sup> Street, N.W.  
Suite 1100  
Washington, D.C. 20036

[www.counterpart.org](http://www.counterpart.org)



By: Sutia Kim Alter

## **The Social Enterprise Experience**

In 2002, Counterpart International completed a social enterprise pilot project in Ukraine, entitled *Counterpart Alliance for Partnership (CAP) Social Enterprise Program*. It provided training, loans and technical assistance to 45 NGOs to start new or develop existing business ventures. The CAP Social Enterprise Program was replicated in Belarus. In 2002, Counterpart launched a similar program in Bulgaria dedicated to social enterprise development and support with the goal of strengthening NGOs' financial sustainability through small business development. Bulgaria Pilot Community Fund and Social Enterprise program will support the business ventures of 23 Bulgarian NGOs. Counterpart is committed to developing a state-of-the-art social enterprise methodology that it can replicate in the countries where it works.

## **Methodology**

The information for the social enterprise cases studies described in this publication was collected through extensive interviews, site visits, and reviews of internal program documentation. The principle method used was interviews, which were conducted with NGO directors; social enterprise managers, board members and staff; and Counterpart technical program staff from Ukraine, Belarus, and Washington, D.C. Working with the information provided, the author has tried to be as thorough and accurate as possible in presenting the cases. Most of all, the stories are real, about real people and their experiences, and thus impart valuable technical information for the benefit of other practitioners in this field.

## **Counterpart International**

Founded in 1965, Counterpart is a diverse, tax-exempt, nonprofit, international development organization dedicated to helping people in need—often when they need help the most—in areas of civil society, private enterprise, environmental resource management, humanitarian relief, and health care. It does this by building the capacity of local partners—nongovernmental organizations, associations, lenders, businesses, governments, and other institutions—to solve their own, self-defined economic, ecological, political, and social problems in ways that are sustainable, practical, and independent. Those benefiting from programs Counterpart develops and implements include women, disabled, internally displaced and other at-risk people; nongovernmental organizations dedicated to strengthening democracy and civil society; environmental groups helping people protect, preserve and restore their fragile local ecosystems in ways that are economically sustainable and income-generating; entrepreneurs in need of business training, financing and support services; and victims displaced because of natural disasters or civil strife.

Counterpart is supported by corporations, individuals, foundations and governments. It manages a donor portfolio of more than \$80 million through a network of 17 international program offices directly operated by Counterpart. Affiliate and partner organizations operate in 21 countries in North America, the Caribbean, Europe, Asia, Africa and the South Pacific, enabling the transfer of skills and lessons learned across borders and cultures.

For more information about Counterpart or this publication, contact:

### **Karen Sherman, Executive Vice President**

Counterpart International  
1200 18<sup>th</sup> Street, NW  
Suite 1100  
Washington DC 20036

Tel: (202) 296-9676  
Fax: (202) 296-9679  
karen@counterpart.org  
www.counterpart.org

## **About the Author**

Sutia Kim Alter has worked in the social enterprise field for over a dozen years. She is founder and principal of Virtue Ventures LLC, a management consulting firm that specializes in social entrepreneurship. Ms. Alter is the author of Managing the Double Bottom Line: A Business Planning Guide for Social Enterprises (2001 PACT Publications) and several articles on social enterprise, and she presides on the Board of Directors of the international membership organization Social Enterprise Alliance. For more information or to contact Ms. Alter, please visit [www.virtueventures.com](http://www.virtueventures.com).

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## Abstract

The term *social enterprise* was created by the American non-profit community in the 1970s, which began to create and operate their own businesses as ways to create job opportunities for the disadvantaged, homeless and other at-risk people. The idea is that a nonprofit business venture or revenue-generating activity can create positive social impact while operating with reference to a financial bottom line. Today, NGOs understand that only by establishing an independent means of support, can they continue to fulfill their mission. An NGO's new vigor and growth enables it to provide and expand vital services to its constituents and members while moving the organization toward self-sufficiency.

*Case Studies in Social Enterprise: Counterpart International's Experience* explains: (1) social enterprise, (2) its importance as a developmental tool in emerging economies around the world, and (3) through four in-depth case studies in Ukraine, highlights the beneficial impact of social enterprises on the non-profit sector, families and communities. These projects were developed and implemented by Counterpart under a grant from the U.S. Agency for International Development between 1997 and 2002.

Counterpart's experience demonstrates that social enterprises have high potential as a nonprofit sustainability strategy in emerging economies where markets are underdeveloped and entry barriers are low. Comprehensive and well-structured programs like the *Counterpart Alliance for Partnership*, which complements business training with loans, advocacy and legal advice and networking increase the likelihood of NGOs' successful creation of sustainable social enterprises that will achieve both financial viability and social impact in the long term. Counterpart's social enterprise methodologies provide the tools and inputs that assist their NGO participants in their business activities. With Counterpart's assistance, NGOs have successfully established or expanded their income-generating activities and, at the same time, are meeting their organizational mission.

### **The Social Enterprises**

#### **Mercy Charitable Foundation**

This NGO established a high quality, health conscious, for-profit restaurant. It supplies up to 110 free meals a day while training clients in culinary job skills. Profits are used to support a hunger relief program, teach healthy lifestyles and provide jobs to Mercy's clients. Mercy focuses assistance on low-income families as a means to prevent homelessness for at-risk children and offering services to the elderly and substance abusers.

With the exception of McDonald's, Mercy's Kovcheg Café is the only place in Ukraine where people can enjoy a meal in a smoke- and alcohol-free environment. Since launching the café, Mercy has started new social enterprises: three thrift shops that sell secondhand goods donated by the public and collected through the churches. Through the experience Mercy has learned how to leverage its assets and now rents the vehicles it uses to distribute humanitarian assistance to other NGOs when they are idle. Mercy has also invested in a farm to provide vocational training and rehabilitation to former drug

addicts and alcoholics. The farm provides a refuge for people in recovery. The farm, though not yet an income-generating venture, provides agricultural products to the café and to Mercy's free meals program. Mercy received grants from CAP to assist with marketing and product development.

Developmental Impact — (1) Increased job creation in Zhytomyr City, where the unemployment rate is over 60 percent; (2) Achieved sustainability of Mercy Charitable Foundation by creating a permanent funding source through its social enterprises and independence from donor support; (3) Of Mercy's annual operating budget; 100 percent is generated from earned income; Launched three new social enterprise thrift shops that contributed \$9,350 or approximately 94 percent of Mercy's budget; (4) Provided 60 free meals a day in 2001; over 100 projected for 2002 (based on six-month performance); 150 projected for 2003; (5) Changed public opinion and social consciousness about healthy lifestyle choices.

### **Alisa Society for the Disabled**

This association for the disabled created training and job opportunities for their clients by starting six business ventures—Stationery Shop Alisa; Café Posadena; Etit, a trading company; Instorm, an architecture firm; Monostat Advertising Agency; and a sports training facility that teaches martial arts to children. Revenue and profits from the ventures are used to promote social and economic rehabilitation of people with disabilities. The idea is to offer vocational training programs with the intention of training people with disabilities to mainstream them into the workforce. The organization was conceived in 1991 at the time of Perestroika when its founder, Svetlana Mischenko, herself disabled, saw an opportunity to help people with physical disabilities as government regulations relaxed in Ukraine. Mischenko observed that disabled people were marginalized, were not being fully integrated into the workforce or educational institutions, and public access for them was limited.

In 1999, Mischenko joined forces with five other NGOs to establish the Social and Vocational Rehabilitation Center, a for-profit that runs several businesses where people with disabilities obtain vocational skills, such as sewing, carpentry or meat processing, while generating a profit. Today, the Social and Vocational Rehabilitation Center employs over 350 people with disabilities and the profit from its activities underwrites various social programs such as mental health services. It provides grants to several social service organizations, funds the start-up of new ventures and makes internal loans to its own businesses. Alisa Society's social enterprises have resulted in the creation of hundreds of job for people with disabilities, as well as providing a stable source of funding for Alisa's social activities. Though Alisa's mandate is to employ at least 50 percent disabled people, it has far exceeded its target, employing more than 90 percent in all activities.

Developmental Impact — (1) Trained 130 disabled people in 2001; (2) Expected to serve an estimated 2,000 clients in 2002; (3) Anticipate placing 1,000 disabled people in mainstream jobs in 2002; (4) Covered 25 percent of organization's operating costs with earned income; (5) Increased the profitability of social enterprises since 2000 by more than 200 percent.

## **Peace Beauty Culture Association**

This NGO founded *Creative Workshop* to produce and sell exclusive clothes for children and youth using natural fibers decorated with traditional Ukrainian art in contemporary designs. Revenue and profits are used to promote national pride, culture, and the arts through the theatre and schools while training youth in sustainable job skills. Its women's clothing line has been shown at trade shows in Washington D.C.

Peace, Beauty, Culture's express purpose is to invest in the social and cultural education of young people as a means to contribute to the development of Ukrainian society. Since its inception it has grown to offer a range of services. A "fashion school" where history, ecology, music, art and folk aesthetics, ethic and the psychology of success are taught was integrated into the S Theater, where each show focuses on a social problem, using clothing and drama as a medium to raise social consciousness and to encourage participation in the community. Students also learn about fashion design, tailoring and clothing production. The fashion school is the only one of its kind in Ukraine. PBC also offers computer courses and vocational skills training for children and youth (especially girls and orphans). The humanitarian assistance component of the NGO includes distribution of clothes produced in the fashion school to orphans and low-income families, and an information and referral service for parents and at-risk adolescents.

Developmental Impact — (1) Created a permanent funding source for Peace Beauty Culture from Creative Workshop and became less dependent on donors for support; (2) Provided services for 2,720 clients in 2001; (3) Created 12 new permanent and contract jobs; (3) Raised awareness of social programs and spurred civic involvement, including 25–50 volunteer positions within the NGO; (4) Generated 36,000 (UAH) toward covering nonprofit operations (50 percent) in 2001; and (5) Increased brand equity and awareness of Peace Beauty Culture's programs.

## **Ariadna and the International Educaiton Center for Youth (IECY)**

This NGO provides public school students with access to high quality business and entrepreneurial education through its social enterprise, *International Education Center for Youth*. Profits are used to improve the social conditions and the standard of living for women and their families through education and counseling. IECY was launched to provide public school students with access to high-quality business and entrepreneurial education and prepare them for careers in a new economic era. IECY's long-term goal is to expand its programs throughout the newly independent states, but planned to focus locally first in the vicinity of Kharkov, Ukraine, and St. Petersburg, Russia. The founding NGO, Ariadna Zhavoronok Center, helps children (ages 4 to 18) in crisis or at risk in the city of Kharkov. The Center's programs include: art therapy, pre-school, teacher training, and numerous education programs; and counseling and humanitarian assistance to families, single parents, alcoholics, and drug addicts. The Zhavoronok Center employs psychologists, social workers and educational specialists.

Developmental Impact — (1) Zhavoronock Center children served in 2002 (est). – 5,500; (2) Teacher training programs in 2002 – 1,500; (3) Women's education programs in 2002 – 45; (4) IECY Students served in 2003/2004 (est.) – 3,000; and (5) IECY

number of teachers in 2003/2004 – 85; (6) For the academic year 2001-02, its educational programs are serving 400 students from low- and middle-income families, and next year's enrollment is projected at twice that—800 students. Prices are set on a sliding scale, based on ability to pay. Middle-income parents pay higher fees in order to subsidize poor students.

Collectively, the social enterprises documented in these four case studies illustrate the tremendous contribution and importance of social enterprise as a developmental tool in emerging economies around the world. The beneficial impact of social enterprises on the non-profit sector, families and communities cannot be overstated.

A handwritten signature in black ink, appearing to read "Karen Sherman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Karen Sherman  
Executive Vice President  
Counterpart International, Inc.



# Introduction

## **Social Enterprise: An Emerging Field**

There is a global buzz about a new and dynamic field aimed at ensuring nonprofit sustainability and achieving deep social impact. The lexicon varies, but whether referred to as “social venture,” “sustainability strategy,” “nonprofit income-generating activity,” “social-purpose business,” or “social enterprise,” as in this report, this emerging field is receiving international attention and is increasingly becoming a global movement. The likes of such household names as World Bank, USAID, Kellogg and Carnegie Foundations, Goldman Sachs, Charles Schwab, Ben and Jerry’s, Ashoka, Share Our Strength, Yale and Harvard Universities have joined the droves of other donors, practitioners, private companies and academics in this space where business and public good converge.

So what is social enterprise? Social enterprise is a generic term for a nonprofit business venture or revenue-generating activity founded to create positive social impact while operating with reference to a financial bottom line. Social enterprise financial objectives can range from diversifying grant funds with a small percentage of earned income to making a profit, though frequently income-generation is intended as a sustainability strategy either for a specific program or the institution. Social objectives also run the gambit, depending on mission and sector of the nonprofit, from providing economic opportunities to the disadvantaged, disabled or at-risk populations, to cleaning up the environment or strengthening civil society. The common trait is that social enterprises are committed to achieving a ***double bottom line***—their social mission and their financial objectives. Social enterprises are accountable for achieving both types of outcomes; this requires managing priorities, resources and program goals in a way that balances the two. For nonprofit practitioners who are accomplished in executing social programs this usually means integrating business skills, practices and entrepreneurship into their operations.

Nonprofit actors have been attracted to the social enterprise field for a number of reasons. In an increasingly competitive fundraising environment, social enterprises generate sustainable resources to support their organizational mission and ensure long-term survival. Earned income allows for greater program flexibility and is a source of much-coveted unrestricted funding for new program investments. It is also a means for organizations to stay mission-focused rather than being derailed by a vaguely related prospect of donor funding, and ultimately, to reduce their overall dependence on donor support.

Currently, donors are taking on an “investment mindset,” allocating grants according to their potential social return. As a result, nonprofits are professionalizing, and with this trend comes raised expectations and pressure on organizations to be “businesslike.” To this end, in the social enterprise arena, organizations learn to engage market forces, think more strategically, use business practices in their operations and productively leverage their assets.

Practitioners, and their supporters, have found that the social enterprise approach of amalgamating business and social disciplines strengthens mission execution and organizational self-sufficiency. Planning processes, management tools and measurement instruments essential in businesses but often lacking in nonprofits are easily adapted and

integrated into the social enterprise. Thus, social enterprises operate within a well-developed framework to both manage and be accountable for their social and business objectives. Many social enterprises monetize social return on investments (SROI) to demonstrate economic value, social value, and the blended value that the enterprise creates for its target population, donor and society as a whole. Social enterprises' organizational structure and use of methods borrowed from business strengthen capacity-building. The business-led, mission-driven organization develops similarly to private enterprise and applies organizational development constructs to its operations, financial management, and human resource and leadership development. Nonprofit capacity is strengthened simultaneously, and as part of enterprise growth rather than as a separate activity.

Social enterprises may serve several purposes. They can be implemented as a program strategy expressly to affect a specific population or a financial self-sufficiency strategy aimed at generating income, but usually they are a combination of the two. Social enterprise purposes, illustrated vis-à-vis examples, are:

**Economic development.** Creating economic opportunities that either develop markets for small and underprivileged business, or that foster self-employment and create jobs for low-income people, enabling them to attain economic security for themselves and their families. Microfinance institutions are the best-known example of economic development social enterprises.

**Workforce development.** Creating employment for disenfranchised or at-risk populations so “hard-to-employ” people can earn a livable wage and develop marketable skills. Vocational training, disabilities programs and a host of social service programs often create social enterprises for this purpose. Workforce development social enterprises are also common in the U.S., but have proven successful in post-Soviet and transitional countries.

**Nonprofit sustainability.** Increasing nonprofits' ability to generate income to support their social programs without continued reliance on donor funding. Used by all types of nonprofits to varying degrees, sustainability is achieved through a wide range of commercial activities—e.g. product sales, fee-for-service, government contracts, leasing, private sector partnerships, membership and conference fees. A key differentiator is not in purpose, but in structure: Income is earned through mission-related activities integrated within social enterprise operations—i.e. commercialization of social services, or alternatively through unrelated business or subsidiary activities where earned income subsidizes social programs.

A social enterprise can take many forms, which makes it an applicable program vehicle or income-generating strategy for nonprofits working in a variety of sectors.

- An **employer** of at-risk, disenfranchised or low-income populations: an underwater eco-tourism business in the Black Sea staffed by Roma orphans; a wheelchair manufacturing business run by victims of landmines in Cambodia.
- A **customer** of goods produced by low-income entrepreneurs or disenfranchised people: a shop that sells crafts and clothing made by low-income women in India; an

ice cream company that purchases products from a bakery that employs formerly homeless people in the United States.

- A **seller** of products or services to low-income or disenfranchised business owners to help them improve their operations and income: a marketing cooperative that provides Asian producers access to more profitable export markets for their goods in the U.S. and Europe; a financial services organization that provides collateral-free, affordable loans to female entrepreneurs throughout the developing world.
- A **for-profit subsidiary** of a nonprofit organization whose revenue is used to subsidize its nonprofit programs: a Zimbabwean horticulture business that grows and sells hybrid roses in European markets, while employing a large number of low-income people. It also uses profits to subsidize a horticulture school and hospital for indigent Zimbabweans. An Armenia hotel owned by a nonprofit drug and alcohol treatment center; the hotel provides transitional jobs to recovering addicts, and its profits are shifted back to the nonprofit to cover costs of treatment programs.
- A **social-purpose business** (nonprofit) that contributes to a public good by serving a less commercially attractive nonprofit customer: a manufacturer and distributor of low-cost irrigation pumps to low-income rural farmers in Kenya; a nonprofit that buys generic pharmaceuticals in bulk at discounted prices and passes the cost savings on to clinics in Guatemala serving rural low-income people.
- A **nonprofit organization** that generates income by selling goods, commercializing services, or leveraging assets (tangible and intangible) to support its social service activities: an Egyptian vocational skills training organization that leases idle computer equipment and provides computer courses after hours to the public for a fee. A U.S. disabilities service organization that in addition to rendering services to the low-income, offers “premium care” that includes high-end services—i.e. aroma therapy, massage and errands to the private pay market. A senior services organization that “sells” its relations with the community by organizing focus group of its clients for advertisers who are trying to reach the senior market.

The notion of social enterprise has been around for a long time. For years, nonprofit organizations have employed methods of generating income through membership fees, fee-for-service, and related ideas, and “sheltered workshops” have created enterprises to support employment or vocational training programs. What’s new is social enterprise’s emergence as a field that is attracting the best and the brightest from the four corners of the globe. The field is developing a body of knowledge, studies, lessons, “good practices,” tools, principles, and a diverse base of practitioners and funders committed to bringing social enterprise to the fore as a viable methodology for nonprofits to achieve the dual objectives of financial sustainability and mission accomplishment.

Social enterprise has also been satisfactorily tested in a variety of countries, economic situations and business climates. In short, social enterprise as a discipline has had a successful, albeit short, track record and—we believe—a vibrant future, yet there is much work to be done.

## **Counterpart Alliance for Partnership Social Enterprise Program**

From 1997 to 2002, Counterpart led a four-and-half-year, \$13 million civil society program called Counterpart Alliance for Partnership that was designed to build the capacity of local nongovernmental organizations (NGOs) in Ukraine and Belarus. Counterpart Alliance for Partnership (CAP) used a combination of grants, training, technical assistance, advocacy, information exchange and partnership to strengthen local NGOs. CAP supported NGOs working in a variety of sectors, including education; HIV/AIDS prevention and care; children in crisis and at risk; youth leadership; disabilities services; elderly, homeless and unemployed; health and the environment. One component of the CAP program was dedicated to social enterprise development and support with the goal of strengthening NGOs' financial sustainability through small business development.

In October 1999, CAP program managers surveyed grantees with income-generating activities to qualify them for the "social enterprise recoverable grants program" intended to help grantees grow their business activities. CAP managers assessed the NGO candidates' training needs and developed curriculum that would support an NGO's ability to absorb and manage debt in addition to developing an enterprise that could sustain the NGO's social programs over time. In the end, CAP targeted 45 organizations for participation in the program. It selected organizations that had already received CAP seed or operating grants, and either had existing business activities or leveragable assets and the will and spirit to apply themselves to start a social enterprise.

The training program design was comprehensive and the curriculum intensive, spanning a two-year period, with 10 training modules running two to eight days each in duration. The training topics delivered in the CAP Social Enterprise program were: tax and legal issues; social entrepreneurship; business planning (eight days); basics of marketing management; price strategy; sales techniques, advertising, budgeting and financial management; financial planning and strategic management. In addition to training NGO social enterprise practitioners, CAP provided one-on-one technical assistance and mentoring; affinity group meeting and networking sessions organized by industry; targeted small group training aimed at helping organizations struggling with similar issues or constraints; cross-border study tours; and learning exchanges between organizations.

### **Counterpart Alliance for Partnership Social Enterprise Program Results**

Out of 45 NGOs that participated in the CAP social enterprise program, 31 started new or developed existing businesses. Out of those 31, the monthly cash contribution of the social enterprise to the NGO ranges from \$100 to \$1,000:

- 15 NGOs earn \$100—\$500
- 10 NGOs earn \$500—\$1,000
- 6 NGOs earn more than \$1,000

The percentage of the NGO's operational budget covered by social enterprise ranges from 1 percent to 100 percent:

- 20 NGOs: 1-50 percent
- 7 NGOs: 50-99 percent
- 4 NGOs: 100 percent

Based on the positive results and experience of its pilot project in Ukraine and Belarus, Counterpart is committed to developing a state-of-the-art social enterprise methodology that it can replicate in the countries where it works. In 2002, Counterpart began a new social enterprise program in Bulgaria. Similar to CAP, the objective of this program is to strengthen NGOs' capacity for financial sustainability through social enterprise ventures; equally important, however, this second program will enable Counterpart to refine and strengthen its successful model.

Although social enterprise has its historic roots in the well-developed markets of the United States, Counterpart's experience demonstrates that social enterprise also has high potential as a nonprofit sustainability strategy in transitional economies. In fact, emerging economies offer a plethora of opportunities for nonprofit social enterprises to venture into high-margin businesses. In the competitive markets of industrial countries, these high-margin businesses are traditionally dominated by the private sector, but in emerging economies these markets are underdeveloped and entry barriers are still low.

Often the NGO sector is still constrained from developing successful enterprises in these markets by the legal environment, tax issues, a lack of access to capital and low business acumen. Comprehensive and well-structured programs like the Counterpart Alliance for Partnership, which complements business training with loans, advocacy and legal advice, networking and other services, increase the likelihood of NGOs' successful creation of sustainable social enterprises that will achieve both financial viability and social impact in the long term.

The following are case studies of four distinctly different social enterprises that participated in the Counterpart Alliance for Partnership program in Ukraine. The cases attempt to provide the reader with general knowledge about the social enterprise field while giving insight into the specific challenges and accomplishments faced by these organizations. The reader should note that due to Ukraine's harsh legal environment, which incites fear in NGO managers about losing their nonprofit status or being slapped with tax penalties, financial information was obtained with tremendous difficulty and therefore figures may not be entirely accurate. The cases only begin to relate the breadth of experience, the satisfaction of success and the details of numerous trials encountered by NGO leaders on their amazing journey. Captured herein is a tiny glimmer of each social enterprise's unique story as well as the personal story of the incredible entrepreneurs behind these ventures.

Sutia Kim Alter

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## CASE STUDY: Mercy Charitable Foundation

*"We wanted to learn to fish, but needed a fishing pole."*

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### Activities

- ( · Free meals
- ( · Food parcels and clothing
- ( · Legal aid
- ( · Human rights protection
- ( · Educational and recreational programs
- ( · Counseling
- ( · Drug and alcohol rehabilitation

### Clients

- ( · Elderly
- ( · Homeless people
- ( · Orphans
- ( · Large families
- ( · Youth at risk
- ( · Alcoholics and drug addicts

### **The Enterprise**

This Zhytomer-based NGO established a restaurant that supplies up to 110 free meals a day while training clients in culinary job skills. Revenue and profits are used to support a hunger relief program, teach healthy lifestyles and provide jobs to Mercy's clients.

### **Background**

Mercy Charitable Foundation is a Christian faith-based non-governmental organization (NGO) founded in 1997 by Natalya Prokhorenko to provide humanitarian assistance to the most vulnerable people in the Zhytomyr region, one of the poorest areas of Ukraine. Zhytomyr's 60 percent unemployment rate has resulted in a high incidence of substance abuse, homelessness and depression among its population. Zhytomyr also lies within the "Chernobyl zone" impacted by the disaster of 1986. Cancer is prevalent among the residents — 2001 was the first year since 1986 that the birth rate was higher than the mortality rate in the region.

Mercy's first programs focused on homeless children because they are among the most vulnerable population. In the beginning the primary activity was a hunger relief program, which provided free meals to homeless children. The organization tried to open an orphanage on its premises, but was refused licensing by the state. Unable to address the housing problem, Prokhorenko discovered that it was difficult to effectively treat this population because Mercy could only provide short-term aid. At this point Prokhorenko decided to redirect the organization's assistance to low-income families as a means to prevent homelessness for at-risk children. Mercy began to diversify its programs beyond relief to development assistance by offering educational and social activities, legal aid and

counseling programs. By 1999 Mercy had expanded its programs considerably and was also offering services to the elderly and substance abusers.

Initially, Mercy Charitable Foundation received financial support from local NGOs, business partners and international donors. The local government gave a large building in downtown Zhytomyr to Mercy Foundation for office space. Mercy also received substantial food donations from local agricultural producers and businesses to support the feeding program. As the country's economic situation worsened, it became increasingly difficult to find funders for Mercy's programs or food donors. Mercy's ability to provide free meals and render other services began to slip. Understanding that the organization's future was at risk and Mercy couldn't afford to remain dependent on external donors to support activities, Prokhorenko decided to initiate income-generating activities to sustain the organization and its operations. "We wanted to learn to fish, but needed a fishing pole," Prokhorenko says.

**Mercy's Mission:** *To support the most vulnerable populations and protect their human and constitutional rights.*

### **Social Enterprise**

*"In the beginning we tried lots of things to earn money: a catering company, a newspaper, we even had boys wearing sandwich boards on the streets with pictures of homeless children soliciting donations. None worked. We conducted market research on some very good ideas, but in most cases we lacked the start-up capital and couldn't find investors who were willing to finance an NGO enterprise. Now that we know we can be successful, someday we will do these ideas later using our own financing."*

- Valisy Dekhtyarenko, Mercy Charitable Foundation Board Chair and venture team member

A café seemed like a logical choice for a business since it fit well with Mercy's hunger relief program and leveraged the organization's assets. Mercy had the physical space, including a well-equipped kitchen and large dining area used to prepare and serve free meals for the homeless. Its highly visible central location and close proximity to the university were conducive for a café. Moreover, the market analysis showed that Mercy could start a café with little initial capital, and a large percentage of the costs could be absorbed through in-kind support.

It was decided. Mercy's social enterprise would be a café. Modest renovations to make the space more attractive to commercial clients were completed using donated construction supplies. Mercy youth club members served as volunteer labor to build tables, and paint and decorate the place. Prokhorenko formed a "venture team" comprised of Mercy's senior management, a few board members and an entrepreneur, experienced in the restaurant industry, who would manage the café. Together the team set out to craft the business plan, plot its marketing strategy, discuss the menu, legal issues and operations.

The business planning process uncovered a dilemma for Mercy's team: whether or not the café should sell alcohol and cigarettes to its customers. During the day, Mercy rendered counseling services to addicts, helped young people to quit smoking and taught them to avoid drugs and alcohol by engaging in sports and other activities. Therefore, it made no sense for the business to perpetuate the exact behavior the NGO was trying to mitigate by selling alcohol and cigarettes.

One customer said, "There should be more cafes like this one; the quality of the food is very good and people are becoming more conscious of their health."

Prokhorenko suspected that money could be made from alcohol sales, but wanted the café to be alcohol- and smoke-free. The market study confirmed this assumption, projecting that the café would realize twice as much profit if it sold alcohol in addition to food. The labor was in the food preparation and the profit was in the liquor.

Additionally, a non-smoking restaurant imposed barriers on a large market of potential café customers: smokers. (It is estimated that over 50 percent of the population in Ukraine smokes.) Many people told Prokhorenko that the café would fail; business advisors forecast that the café would go bankrupt, and even within the supportive environment of the CAP Program, another participant said, “you won’t last three months.” Prokhorenko was unyielding in her resolve not sell alcohol or cigarettes and her team supported this decision.

On April 1, 2000, Mercy opened the Kovcheg Café. It took a three to four months to establish the café within the community, but as it turned out Prokhorenko found a solid niche market for her concept. With the exception of McDonald’s, Mercy’s café is the only place in Ukraine where people can enjoy a meal in a smoke- and alcohol-free environment. The demand for a family-style restaurant removed from boisterous drunks and unhealthy air was wholly underestimated. “At lunchtime it’s hard to find a table,” said Prokhorenko.

Another part of Kovcheg Café’s successful recipe is its price strategy and emphasis on quality. It’s one of the cheapest cafes in Zhytomyr serving high-quality food. The most expensive meal in the restaurant is just one dollar. Other area cafes charge \$3 to \$7 for a full meal. There is room to raise prices, but “people are so financially pressed in the city already that we don’t want to,” said Prokhorenko. “Our objective is to offer an affordable and relaxing place where families can come for a good, healthy meal.”

Prokhorenko said that it has taken her three years to understand that the number one criteria is character assessment: people who understand and are committed to the mission.

Alignment of Kovcheg Café’s and Mercy’s mission has been the cornerstone of the café’s operations and has guided the decision-making by the venture team. The café mission is to provide a respite for people and teach healthy lifestyles. It also provides jobs to Mercy’s clients and generates income for the nonprofit’s operations.

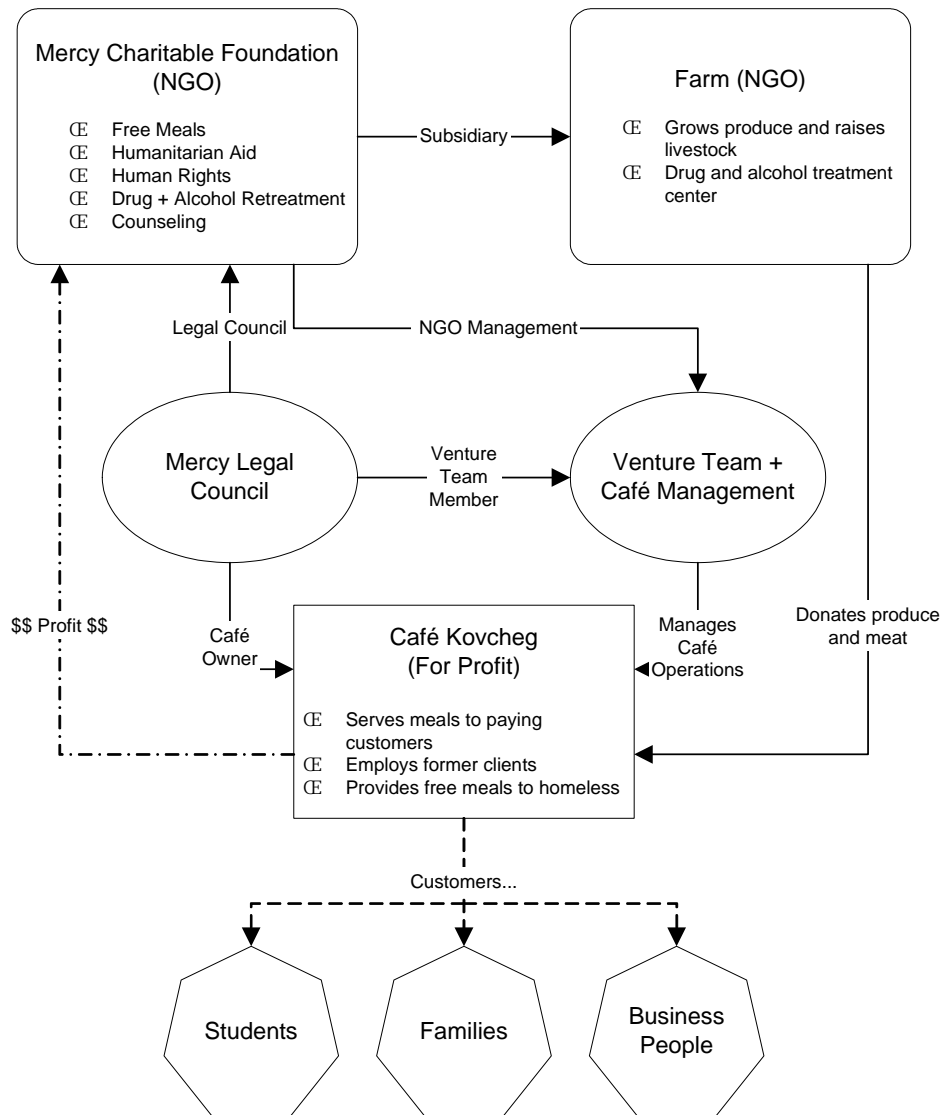
Mercy team’s niche market development strategy for Kovcheg means that the café has few direct competitors because it offers a different service and targets a different market than the other cafes and restaurants in town. Many of Zhytomyr cafés charge much higher prices, focus less on food and more on their beverage service, have gambling and operate late into the night.

With the café’s first-year profits, Mercy expanded its operations to include dinner service and increased the dining space. Prokhorenko and her team have plans to open another café across town, with a vision of franchising the concept all over Ukraine. Since launching Kovcheg Café, Mercy has started new social enterprises: three thrift shops that sell secondhand goods donated by the public and collected through the churches. Through the experience Mercy has also learned about leveraging its assets and now rents the vehicles it uses to distribute humanitarian assistance to other NGOs when they are idle. Behind Mercy’s building there is a vacant lot that Prokhorenko is considering using for paid parking until they find another use for the space.



Last year Mercy also invested in a farm to provide vocational training and rehabilitation to former drug addicts and alcoholics. The farm provides a refuge for people in recovery. Mercy found that there were far fewer incidents of relapse in residential drug and alcohol treatment programs held outside the negative forces of the addict’s environment. Skills development and job training programs increased the likelihood of long-term success by giving people in recovery new possibilities to earn an income. The farm, though not yet an income-generating venture, provides agricultural products to the café and to Mercy’s free meals program. In the future, Prokhorenko and her team plan to employ people in the rehab program in agricultural businesses that will both help to build their skills and earn a living, as well as generate money for Mercy’s social programs.

### Mercy Charitable Foundation



Kovcheg Café has served as an educational vehicle to raise social consciousness about the health risks associated with smoking and drinking and offer healthy choices. Mercy has also increased its influence in the community and expanded services that positively reflect the organization's public image. As a result, Mercy management is in discussion with the City Council regarding the bequest of an abandoned "sanatorium" with unique mud baths. If Mercy is able to negotiate a deal, it plans to convert the property into a recreational complex for children.

### **The Counterpart Alliance for Partnership (CAP) Social Enterprise Program**

The Counterpart Alliance for Partnership (CAP) was one of Mercy's most important partners. In addition to being selected to participate in the Social Enterprise Program, Mercy received two matching grants from CAP totaling \$9,460 for program seed capital and operations. Until this point, Mercy had been dependent on charitable contributions and external donors to support the organization's humanitarian assistance activities. Once Mercy's management made the decision to become self-sufficient via earned income, the CAP Program gave Prokhorenko and her team the impetus and tools to start and run the café as a commercial business.

At the outset, CAP trainers helped Mercy select a business idea that fit with the organization's social and financial objectives. CAP training then supported the market research and analysis phase prior to initiating the enterprise and facilitated tough decision-making during the business planning process. CAP helped Mercy develop its human resources plan for the café, which integrated former clients as wait, counter and kitchen staff and recruited an individual entrepreneur for café manager.

The most important assistance Prokhorenko and her team received from CAP was marketing. Zhytomyr is full of small cafés, yet Kovcheg's unusual concept was difficult for people to grasp; the target market was not well-defined, nor the marketing channels well-developed, all of which posed marketing challenges. At first Mercy's marketing approach was random: advertisements in the newspaper; flyers sent to businesses, community centers, churches and the university; and a sign placed on the front of the building. These marketing vehicles attracted customers sporadically, but did not target specific customers, or build a steady client base for the café. Mercy needed to be more strategic in its marketing efforts and to craft a clear and consistent message to inform people about the café, its premise and the benefits of its products. Additionally, the team needed to define its target market and understand the characteristics and preferences of the café's customers.

With assistance from CAP, the Mercy team prepared a marketing plan focused on developing the café's brand and image. "We want people to think of us as a respite for families where people can get away from drunkenness," Prokhorenko said. "We developed our marketing message around this idea and our image as *a healthy place*." Mercy found that churches provided the best marketing channels for the café both due to the characteristics of church members and the fit with its faith-based parent NGO, Mercy Charitable Foundation. The Mercy team also used low price penetration strategy to attract and retain customers, particularly price-sensitive students and low-income families, and marketing tactics such as outdoor seating to draw in foot traffic.

CAP training also helped the Mercy team understand the importance of product development. “We learned that people would try the café once because it was owned by a local humanitarian organization, but they would not come back unless they were satisfied. This meant we needed a high-quality product,” said Prokhorenko. The Mercy team made quality its number one priority, determined to deliver consistent, nutritious and delicious meals. Mercy also found that it had to separate NGO clients receiving free meals from paying customers. “Many café customers do not feel comfortable eating with homeless people, even if they support the cause.” Because Mercy saw the tranquil and comfortable ambiance as part of the café’s service, clients receiving free meals were relocated to another part of the building with a separate entrance.

Prokhorenko and her team listened closely to their customers and responded to what they wanted by adding new menu items, dinner service (in addition to lunch) and offering outdoor seating during spring and summer. Some of the café’s first-year revenues were



**Satisfied customers enjoy a family meal**

reinvested in the business, used to open a banquet hall for functions — i.e. sports functions, conferences, birthday parties and Christian weddings where they do not want alcohol served. One customer said, “There should be more cafes like this one; the quality of the food is very good and people are becoming more conscious of their health.”

Today, Kovcheg Café’s number one marketing vehicle is word of mouth.

The customer base is growing: families who want a healthy relaxed environment, cost-conscious students, and increasingly, business people who want to have meetings in an alcohol-free environment.

## **Challenges**

**Financial** — Mercy lacked funds to invest in full-scale renovation and upgrades for the café. Currently, the kitchen needs a better ventilation system, a major expense. The café could serve more customers by building additional dining space. Mercy received a \$1,000 loan from the CAP Program, but since has been unable to secure a bank loan to finance further improvements or expansion. Banks require 200 percent collateral on loans, which are repaid in hard currency at 14 percent – 16 percent interest. Since the NGO is a “public good” managers are unable to borrow against assets for improvements to the café. The number one priority of the café is funding social programs, so after expenses there are no retained

earnings for improvements. Utility prices have skyrocketed in 2000 and 2001, making electricity the number one operating expense (higher than salaries). There are frequent interruptions in service, which disrupts business and takes a bite out of profits.

**Legal** — Prokhorenko and her team learned that there were many legal barriers to nonprofits opening businesses, which required finding a very trustworthy person to register the café business and a creative lawyer. Under Ukrainian law, in order for Mercy to operate a for-profit without losing its nonprofit status, managers must incorporate the café under a “private entrepreneur” who will act as the fiduciary agent and business manager. Mercy managers chose one of their members with whom they signed a memorandum of understanding (MOU) stating that this individual is responsible for running all of the NGO’s commercial activities. According to the MOU, the café’s finances flow through the entrepreneur, who prepares financial statements, pays corporate taxes and files reports with tax authorities. The agreement authorizes the entrepreneur to provide free meals to Mercy’s beneficiaries as a charitable pre-tax corporate contribution and then donate the remaining (after-tax) profits to the NGO for daily operations as a business deduction. Kovcheg Café’s private entrepreneur is Mercy’s legal consultant. “It’s critical to have the right person for this role, otherwise you risk the NGO’s mission,” said Prokhorenko.

**Human Resources** — Once the café was open for business, the Mercy team struggled with human resource and management issues. In Mercy’s case, the memorandum of understanding with the private entrepreneur was a legal formality; in reality the café manager and Mercy’s management ran the café. In its two years of operation, Mercy has replaced the café manager twice. At first Prokhorenko decided to hire a restaurant manager—a solid professional—but he did not understand Mercy’s mission or the café’s purpose. After the same problem occurred with a second manager, Prokhorenko took a different tack and promoted from within.

The current café manager is a former Mercy client. She had been unemployed for many years and started as a dishwasher when the café opened. This manager has been successful in uniting the staff as a team. “All the employees respect her because she is fair and is one of them. There are no feelings of superiority or inequity among them and most importantly, through their work in the café they feel part of Mercy’s mission,” Prokhorenko said. The other advantage of employing former clients is low turnover, although training costs for these staff are high in the beginning.

Part of the management team’s strategy is to employ student interns doing practicum work—training for professional restaurant work—to reduce the cost of labor. Using student interns requires certification from the Labor Bureau, which has helped the Café become more professional. An additional benefit is the “social impact results stemming from educating students in a social enterprise,” Prokhorenko said. Mercy has also received social work students from Sweden interested in learning more about using social enterprise as a vehicle for human and organizational development.

Prokhorenko said that it has taken her three years to understand that the number one criteria is character assessment—people who understand and are committed to the mission. “I can teach people management skills and how to be professional, but I can’t teach this,” she said referring to Mercy’s mission.

**Bureaucracy** — Prokhorenko found meeting licensing requirements and dealing with legal authorities very trying. During the café's first year of operation it had nine visits from the government to verify compliance to fire, health and tax codes. The frequent visits continued (to the point of harassment) into the second year until the government realized that the café was indeed a social enterprise and not a tax shelter, black market or underground business. Several of the neighboring cafés bribe the health department, but Kovcheg's management has refused. One competitor, for example, built its café on the former site of public toilets and paid the government huge kick-backs to get permits. The consequence for Kovcheg's refusal has been harsh scrutiny and the necessity to comply strictly with numerous requirements, some of which impact profitability. For example, Kovcheg Café cannot serve egg dishes to its customers, because according to the health department they must have eight sinks to wash eggs! Currently Mercy is trying to meet a new requirement for additional storage space.

Mercy's involvement in politics has helped smooth the way for the café and raised government awareness about the benefits of social enterprise.

**Political** — Prokhorenko and her team found a general absence of understanding by the local authorities concerning their venture and mission. When the Mercy team was trying to establish its café business, Zhytomyr had a corrupt mayor who was vehemently trying to block the initiative. The mayor colluded with local authorities that tried to impede Mercy's work by withholding building permits and continually changing licensing requirements. He also threatened to repossess their building, given to Mercy Foundation by the previous administration. At first Prokhorenko and her team tried to keep a low profile and follow regulations, but their work continued to be obstructed by local authorities and Prokhorenko realized she would need the support of state bodies to succeed. After months of caucusing, the state government ruled in Mercy's favor and overrode Zhytomyr local authorities, enabling Mercy to proceed with its social enterprise initiative.

Through this experience Prokhorenko learned the value of political involvement and realized that if Mercy was going to pursue earned income as its sustainability strategy, she would have to play a role. Once the café was fully operational, Prokhorenko concentrated on getting elected to the state government. Today, Prokhorenko is serving a term on the legislative council of the state government; Valisy Dekhtyarenko, Mercy's board chair and venture team member, is a state deputy administrator; and several other board members also hold political posts. Mercy's involvement in politics has not only helped smooth the way for the café and other ventures, but has raised government awareness about the benefits of social enterprise and advocated for other NGOs engaged in such ventures. Prokhorenko is intent on passing legislation enabling nonprofit social enterprise throughout Ukraine.

### **Social Impact and Business Results**

Although interviewers were unable to obtain Mercy's current financial information for this report, the organization's entire annual operating budget is covered by income earned from its enterprise activities. (At the time of this writing Mercy had no grant money from donors for general operations.) The three thrift shops are very lucrative, generating 94 percent (\$9,350) in 2001 toward Mercy's nonprofit work. While the café contributed only six percent (\$597) in 2001, it has played an invaluable role in raising political and public awareness

regarding healthful lifestyles, Mercy's other programs and social enterprise in general. It is important to note that the café has reinvested a lot of its earnings since it opened into developing the business; therefore it is difficult to determine actual gains. It's premature to gather financial results from the farm, which opened in late 2001 and whose primary aim is to cover costs while producing foodstuffs to be sold in the café or used for Mercy's free meals program.

Social programs have accelerated as a result of new income streams and Mercy has invested extensively in youth clubs and sports programs. Two of Mercy's "rag-tag" youth soccer teams comprised of low-income and street children made it to the European finals in Sweden, an event sponsored by the European Union. The 11- to 13-year-olds took third place in the competition and 14 to 17-year-olds came back with a fifth place finish out of 200 teams from all over Eastern and Western Europe. Major accomplishments!

Through the creation of Kovcheg Café and other social enterprises, Mercy has achieved the following outcomes:

- Increased job creation in Zhytomyr City, where the unemployment rate is over 60 percent.
  - The café employs 13 former clients and pays them a market rate wage—equal to that of private cafes.
  - Contributes 500 UAH (in-kind meals and cash) per day to support Mercy's social activities.
  - NGO (Mercy) employs 13 people, most of whom are former clients.
  - All social enterprise activities combined employ 50 people, over 90 percent of whom are former clients.
- Achieved sustainability of Mercy Charitable Foundation by creating a permanent funding source through its social enterprises and independence from donor support.
- Generated income: Of Mercy's \$10,000 annual operating budget; 100 percent is generated from earned income.<sup>1</sup>
- Launched three new social enterprise thrift shops that contributed \$9,350 or approximately 94 percent of Mercy's budget.
- Provided 60 free meals a day in 2001; over 100 projected for 2002 (based on six-month performance); 150 projected for 2003.
- Changed public opinion and social consciousness about healthy lifestyle choices.
- Influenced public policy and legislation for future social enterprises.
- Increased cross-sector cooperation between NGOs, businesses and government.

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<sup>1</sup> It's important to note that a large amount of Kovcheg Café's revenues are spent on providing free meals, and thus counted as operating costs. This is because under their legal structure the business is taxable; profit, after taxes, is contributed to the NGO. In accounting terms this understates the café's financial contribution to support Mercy's NGO activities at only 6 percent. It is unclear how much is spent on the meals program and what percentage that would be to Mercy's annual budget, but as one of the organization's main activities it is substantial.

**Street Children in Zhytomyr**



**Mercy's Youth Soccer Team Competed at European Finals**



### **Key Success Factors**

Among the key factors that led to the successful development of the Kovcheg Café:

**Common mission.** Everyone involved in Kovcheg Café understood and supported Mercy's mission.

**Team is very important.** Prokhorenko and her team implemented only those ideas for which they had trusted people with appropriate skills to help. Equity in building a good team was very important, especially because Mercy was employing former clients. Prokhorenko built the team so all members are working for the same cause.

**Niche creation.** Mercy's management clearly distinguished the café's niche and what it did that was different from the competition. They learned about their target customers' preferences, wants and how to find them.

**Counterpart Alliance for Partnership CAP Program.** Prokhorenko claimed that success would not have been possible without the initial support from CAP. The first grant and subsequent training program allowed Mercy's management to quickly develop the social enterprise and in several directions at the same time—to simultaneously develop managerial skills, strengthen humanitarian assistance activities, and diversify the resource base.

**Self-confidence and determination.** Mercy's management used the same approach to start enterprises that they used to run nonprofit programs. They knew that they didn't want to be beggars like many other NGOs that were accustomed to being funded by the state from Soviet times. "Where there is a will there is a way," said Prokhorenko. "We were determined and confident; we knew that as a nonprofit we could run a business when we started, but it was easier than we thought."

**Marketing.** Prokhorenko shared the main lessons that the Mercy team learned about marketing its café:

**Mercy's Successful Marketing Formula**

- **Develop a niche market** — The café serves a small, well-targeted market with a clearly defined concept: “healthy dining.”
- **High quality product is the first priority** — The café uses only fresh ingredients and makes consistent products.
- **Low prices** — Affordability is a key component.
- **Faith-based/Christian ethic** — Mercy leveraged NGO relationships, networks and reputation as marketing channels.
- **Responsive to customer demand** — The café serves customized meals and develops products and services according to customer preferences.

**Advice**

Prokhorenko’s advice for aspiring social entrepreneurs is:

**Don’t be afraid** — You have to take the risk and try it. We found out that starting a business was easier than we thought it would be.

**Get a good lawyer and learn the law** — The legal environment is complex and not particularly enabling for social enterprises. Learning the law and obtaining legal counsel is a good way to avoid problems that could easily put you out of business.

**Put together a good team** — People should have the right mix of functional skills, i.e. marketing, accounting, and industry expertise. Most importantly, they need to get along and trust one another.

**Use personal contacts and work with those people that you already know** — Networking is important for most successful businesses and it’s easier to rally the support of those you already know.

**Operate transparently and abide by the law** — The best way to avoid legal conflict is to follow the law to the letter, even if it’s ludicrous.

**Get involved in the community and local politics** — As a public good, nonprofit organizations have a responsibility to play a role in their communities. Many people do not understand the justification for NGOs earning money and can bar their initiatives. Government authorities are the most dangerous in this regard. NGO leaders have an obligation to get involved in politics to create a more enabling environment for social enterprises.



## **Natalya Prokhorenko**

Aside from doing the unthinkable—starting a social enterprise café that serves no alcohol—Prokhorenko has had her own struggles. A cancer survivor given only one month to live over three years ago, she has profound faith and a sense of purpose that permeates Mercy Foundation. Throughout her life Prokhorenko has been a formidable force. Prior to Mercy she ran a national construction company with over 7,000 workers. Work slowed in post-Soviet times, declining after 1993. Prokhorenko left in 1997 to found Mercy, where during her first two years as the executive director, she received no salary. Her painful bout with cancer combined with the emotionally rewarding results of Mercy’s work has given her an awesome determination to carry the mission forward. Her next project? A halfway house for teen mothers.



### **CONTACT INFORMATION**

Mrs. Natalya Prokhorenko  
Director of Charitable Foundation “Mercy”  
3 Kotsyubynskogo St., Zhytomyr, Ukraine

Tel/Fax: (0412) 34-44-76; (0412) 20-81-18

Email: [mercy@impuls.zhitomir.ua](mailto:mercy@impuls.zhitomir.ua)

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## CASE STUDY: Alisa Society for the Disabled

*“If we were going to survive we would have do it with our own money.”*

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### Activities

- ( · Vocational training
- ( · Job placement
- ( · Education
- ( · Legal aid

### Clients

- ( · People with physical disabilities
- ( · Diabetics
- ( · Cerebral Palsy
- ( · Deaf

### **The Enterprise**

This association for the disabled created training and job opportunities for their clients by starting more than five business ventures, including a wooden door factory, a plant that manufactures artificial limbs and a clothing production operation. Revenue and profits from the ventures are used to help people with physical disabilities, provide jobs and mental health services to the disabled.

### **Background**

“Alisa,” Alice in its English translation, is the namesake of Lewis Carroll’s Alice in Wonderland. The Alisa Society embodies the courage and imagination of Carol’s main character and represents an extraordinary world—“a wonderland”—of possibility for people with disabilities.

The organization was conceived in 1991 at the time of Perestroika when its founder, Svetlana Mischenko, herself disabled, saw an opportunity to help people with physical disabilities as government regulations and society relaxed in Ukraine. Mischenko observed that disabled people were marginalized, were not being fully integrated into the workforce or educational institutions, and public access for them was limited. Initially, the Alisa Society sought to clothe and feed this population, but quickly learned that humanitarian efforts created dependence on handouts. The rapidly deteriorating economic environment and diminishing state support exacerbated clients’ needs, and as a result, Mischenko decided to refocus the organization’s activities on economic development.

In 1997 Alisa Society changed its course and recrafted its mission to “social and economic rehabilitation of people with disabilities.” Mischenko’s idea was to offer vocational training programs with the intention of training people with disabilities to mainstream them into the workforce. However, the country’s dire economic situation also affected Alisa Society’s ability to raise funds and pay its operating costs. This setback galvanized Mischenko to launch three private companies to underwrite the organization’s operating costs, making Alisa Society one of the county’s first social enterprise organizations. Today, Alisa’s earned-

income strategy is fully institutionalized into its culture. Mischenko states frankly, "I realized that donors were not going to be around for the long haul and we couldn't count on them to plan our activities. If we were going to survive we would have to do it with our own money."

Alisa Society's Mission: *To protect the rights and interests of people with disabilities.*

## **Social Enterprise**

Mischenko began to recruit disabled people with business ideas who wanted to start and run a social enterprise. At this point she learned that many of her clients were extremely risk adverse and needed to be educated on how to function in the new capitalist environment before becoming entrepreneurs. Eventually three of Alisa's clients stepped forth and took the challenge to start a business based on their ideas and credentials. Each received basic business training and a small amount of start-up capital before taking their ideas to market. "These three very were courageous," Mischenko exclaims wide-eyed. Alisa's first enterprises: computer training and software; appliance manufacturing and sales; and architectural design. Today, two of the three original businesses are going concerns and continue to be operated by their founders. The third entrepreneur closed the appliance business due to high production costs and slim margins, but then opened an advertising and design firm.

In 1997, Mischenko met a program officer from the Elwin Foundation based in Los Angeles, California. By that time Alisa Society had begun a repair business on its premises to train clients in mechanical skills. The program officer encouraged Mischenko to apply for a grant from the Elwin Foundation to start a formal vocational training program for people with disabilities. Mischenko rallied government support for the idea and was awarded a 180-square meter building on the outskirts of Kiev to

"Find extraordinary people with extraordinary ideas and have them implement their ideas. Visionaries will find unique strategies to achieve business goals."

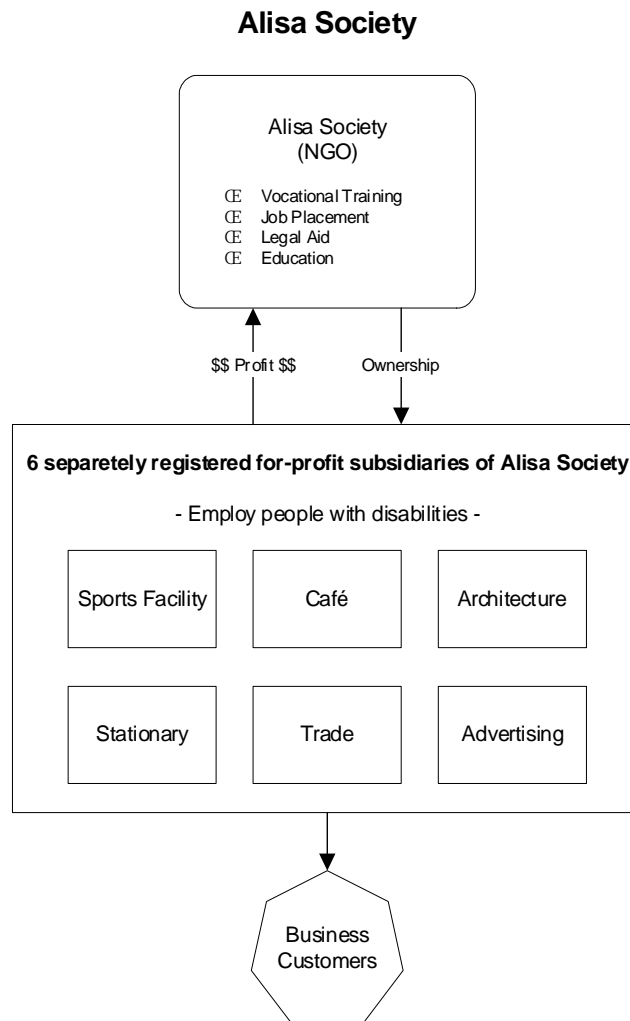


**Mischenko poses with social entrepreneurs**

house the venture. The Elwin grant covered renovation and start-up costs of the new "School Shop" founded to teach a variety of vocational skills to disabled people. As well as offering vocational training the School Shop has a job placement service, and operates a very profitable stationery business on the premises staffed by clients. This year Alisa plans to launch a company that will produce and sell nutritious prepared meals to busy professionals and parents who don't have time to cook. On the horizon is also an onsite ice cream

store, potentially a lucrative business for Alisa's clients to run. Another objective of the ice cream shop is to increase foot traffic to enhance the retail operations of the stationery shop, which currently sells wholesale and bulk purchases to businesses.

In 1999 Mischenko joined forces with five other NGOs to establish the Social and Vocational Rehabilitation Center, a for-profit that runs several businesses where people with disabilities obtain vocational skills, such as sewing, carpentry or meat processing, while generating a profit. The multitude of businesses under the auspices of the Center is so vast Mischenko had trouble remembering them all, but gave a rundown of those she could recall: meat processing plant, publishing company, business center, car repair, dentist, medical center, restoration, wood-working shop, artificial limbs manufacturer, mineral water bottling company and research firm. All and all, the Social and Vocational Rehabilitation Center employs over 350 people with disabilities and the profit from its activities underwrites various social programs such as mental health services. It provides grants to several social service organizations, funds the start-up of new ventures and makes internal loans to its own businesses.



Since 1997, Alisa Society has established six successful social enterprises of its own: Stationery Shop Alisa; Café Posadena; Etit, a trading company; Instorm architecture firm; Monostat advertising agency; and a sports training facility that teaches martial arts to children. All of Alisa’s social enterprises are run by disabled entrepreneurs and staffed by disabled people, except the sports facility that relies on non-disabled people to teach

its courses. While Mischenko doesn't want any of her social enterprises losing money, the businesses' main objective is to teach skills, create jobs, and train disabled people for vocations. The secondary objective is to generate profits to subsidize the nonprofit's activities. The stationery store is Alisa's most profitable venture, followed by the café, advertising, architecture, trade (which is a new business and hasn't had sufficient time to develop) and lastly, the sports facility, which is just breaking even. When asked why Alisa did not close this business, Mischenko laughed, "if it lost money I would, but the clients like it and the clients *are* our business."

### **Counterpart Alliance for Partnership (CAP) Social Enterprise Program**

When Alisa's managers entered CAP's Social Enterprise program in 2000 they had already gained a level of business proficiency from operating the stationery shop, café, etc., however, these enterprises had developed haphazardly in the absence of a strategy or plan. Alisa's managers ran their social enterprises with little focus on them as potential sources of program funding other than as bases for vocational training. Because Alisa's businesses are integrated into the NGO's social services programs, management viewed the businesses as "social cost reduction strategies" and profit maximization was neither an objective nor a management principle. Alisa continued to expand its social enterprises until they started experiencing problems associated with rapid growth and high inefficiencies that put them at risk for bankruptcy.

Alisa Society's participation in CAP's Social Enterprise program came at this critical juncture. CAP's training program, particularly business planning and financial management, provided Alisa's managers with the skills and expertise to develop their social enterprises into successful businesses. Alisa managers learned to plan enterprise growth strategically and though its first priority remained to provide high quality vocational training to its clientele, Alisa shifted its orientation to do so through profitable ventures to ensure sustainability. Adopting this model also served the educational needs of the clients to help them understand and manage business risk in Ukraine's emerging free market. As a result, Alisa increased revenue and expanded businesses, which in turn augmented social impact.

For example, Alisa's managers were successful in turning the stationery shop into a profitable enterprise despite the shop's remote location by securing corporate contracts for wholesale and bulk purchases. Success has created more jobs in the stationery shop, and some of the profits were used to invest in Alisa's newest social enterprise, a café. Managers made the strategic decision to put an ice cream shop next to the stationery store to attract more customers and cross-sell stationery products retail. An ice cream shop is great for clients, too, because it's fun and teaches small business management skills. The Social and Vocational Rehabilitation Center also benefited from CAP training in quality assurance and marketing; the processing plant improved the quality of its meat products and has become a major supplier to some diplomatic offices.

"It's true that many NGO leaders are not business entrepreneurs, and we had to learn as we went along. We often felt like we were stumbling in the dark."

It is important to note that unlike most NGO-run social enterprises in Ukraine, Alisa Society was not required to register its businesses under an individual entrepreneur, who then funneled revenue from the enterprise to the NGO. Under Ukrainian legislation, social enterprises that employ people with disabilities may be owned by NGOs and do not pay business tax on their profits. Alisa registered each social enterprise as a separate for-profit legal entity — “disabilities enterprise.” Alisa’s legal structure has made it easier for the organization to balance its social and financial objectives as well as finding business managers committed to mission.

Today Alisa provides unique opportunities for people with disabilities to develop their skills and attain decent jobs; it boasts wide expertise in the fields of business and social development; and assists other NGOs interested in creating social enterprises. As a sign of recognition for Alisa’s contributions to disability employment, the State Fund for Social Support to Invalids (disabled) recently provided financial support for the Social and Vocational Rehabilitation Center—for a manufacturing plant for prosthetic and orthopedic devices.

#### **Prototype of Handicap Toilet**



Mischenko has grand plans for the expansion of Alisa’s social enterprises and social programs in the future. She’s launching an advocacy program to increase public access for the disabled and has plans to replicate her handicap access toilet prototype throughout Ukraine. She would like to start a reproductive health program and gynecological services for pregnant disabled women. On the social enterprise front, the next projects are a legal services and advisory business, and an art studio for people with disabilities. She would also like to expand her target clients to include people with HIV/AIDS and

render services to this population. Her dream enterprise is a hotel in Kiev where disabled people from around the world can stay.

#### **Challenges**

“The two biggest challenges were finding investment money for start up and strong business managers,” said Mischenko.

**Business management** — Learning how to run a business was a major hurdle for Alisa’s managers. Despite Alisa’s early foray into social entrepreneurship its managers did not perceive themselves as business people, but rather as nonprofit professionals developing social programs for people with disabilities. CAP was instrumental in helping Alisa managers shift their orientation to a business outlook “It’s true that many NGOs’ leaders are not business entrepreneurs, and we had to learn as we went along. We often felt like we were stumbling in the dark,” Mischenko confides. “CAP gave us the tools we needed to run our ventures in a more businesslike way.”

“Those who think that they are the best can fail quickly because they don’t notice the competition sneaking up behind them.”

Learning how to recruit the right people to manage the social enterprises was key to overcoming Alisa’s management challenge. When Alisa invested in its first businesses the only criteria was to find disabled people with ideas and a little know-how who were willing to start a business. Two of the first three businesses exist today and employ disabled people, but none provides significant revenue to subsidize NGO costs. Through this process and with the help of CAP, Mischenko became savvier at screening prospective social entrepreneurs to run Alisa’s businesses. “People can no longer approach the organization with fresh ideas and empty hands. Alisa managers must support the business idea, the entrepreneur must have business skills, and above all he or she must support Alisa’s mission.”

Mischenko focused on finding managers with leadership skills and the ability to “thrive in chaos” during start up. In a few instances internal problems associated with new social enterprises and mission tension caused staff turnover. In Alisa’s experience dissatisfied sales people were the most likely to leave in favor of working for a more established business. It then took time to hire and train someone else, which consequently had a negative impact on the fledgling venture’s performance. Mischenko learned that Alisa can only benefit from the work of entrepreneurs if they understand the mission—they must be “social entrepreneurs.” Mischenko no longer tries to change those who don’t.

**Financing** — Mischenko learned the difficulty of obtaining business financing, especially loans, as a nonprofit organization. In the beginning, Alisa received government support to finance start-up costs of the new businesses. However, one of the reasons Alisa’s businesses got into trouble as they grew was undercapitalization. Some businesses, such as the architecture firm, took longer than others to get established. Financing was necessary to support the business prior to breaking even.

After struggling to find investors or donors interested in funding social enterprises, Mischenko created a reserve fund from business profit and private donors to use as an investment mechanism. The fund is used for internal interest free loans, credit lines for cash management during business cycles, and capital asset purchases or to finance new ventures. The reserve fund also makes programmatic and bridge loans to social programs.

## **Financials**

As many of Alisa’s social programs are integrated in its businesses it is difficult to assess the full financial contribution of the business. In addition to covering the costs of vocational training, each of the businesses contributes at least five percent of its gross profits to the NGO. Alisa Society has the added advantage of receiving state funding from a government reserve for disabilities organizations.

	<b>FY’ 2000</b>	<b>FY’ 2001</b>	<b>FY’ 2002 (est.)</b>
<b>Business contribution</b>	\$2,815	\$5,968	\$12,199
<b>State Funding</b>	9,759	1,492	6,569
<b>Private donations</b>	4,692	14,920	18,768
<b>Grants</b>	14,451	0	0
<b>Sponsorship</b>	938	8,399	0
<b>Total Budget</b>	32,565	30,779	37,536

## **Social Impact and Business Results**

Alisa Society's involvement in social enterprise through its own businesses and those of the Social and Vocational Rehabilitation Center has resulted in the creation of hundreds of jobs for people with disabilities, as well as providing a stable source of funding for Alisa's social activities. And though Alisa's mandate is to employ at least 50 percent disabled people, it has far exceeded its target, employing over 90 percent in all activities. There is significant social return that Alisa could monetize, such as the income earned by disabled people; savings to the public sector through Alisa's programs; and tax contributions made by working disabled people.

"Weigh the pros and cons of starting a social enterprise; if the pros only benefit you it's wrong to start a business."

Through the creation and experience of the social enterprises, Alisa has captured the following outcomes:

- Employs 26 people; 24 of whom are disabled, in six social enterprises.
- Employs five people; four of whom are disabled, in Alisa Society (NGO).
- Trained 130 disabled people (2001): bookkeeping, foreign language, computer courses for careers in advertising, design, administration and office management.
- Served 1,500 clients in its various programs in 2001; expected to serve an estimated 2,000 clients in 2002.
- Placed 700 disabled people in mainstream jobs in 2001 (over 1,000 job placements projected for 2002).
- Covered 25 percent of organization's operating costs with earned income.
- Created six self-sufficient social enterprises while providing training opportunities and jobs to people with disabilities.
- Influences public opinion about disabled people's ability to perform in the workplace as well as their role in society.
- Increased the number of clients and diversity of services provided to disabled people.
- Established strategic partnerships with the government, private businesses and public.
- Become less dependent on donor support.
- Increased the profitability of social enterprises since 2000 by more than 200 percent.



## **Key Success Factors**

Among the key factors that led to the successful development of Alisa's social enterprises:

**Ambitious and driven executive director** — Mischenko's determination and willingness to champion the initiative kept social enterprise a number one priority even in the face of crisis or distractions.

**State support for disabilities organizations** — The Ukrainian government provides funds for disabilities organizations. Alisa Society was able to fund much of the start-up costs for its business with government funding. Additionally, disabilities organizations are the only NGOs in Ukraine that are legally permitted to run private enterprises without threatening their nonprofit status.

**Risk-taking organizational culture** — Alisa Society managers and board member were willing to venture into an area few nonprofits go. A social enterprise rocks organizational culture on several levels, and Alisa's leaders were able to manage that risk internally insofar as it effected staff, board, and management; and externally in the community and market.

**Good team** — Alisa has a strong management team, most of whom have worked together for 11 years. Because they were competent in their functions, Mischenko could effectively delegate responsibilities while turning her attention to developing the businesses.

**Committed to social enterprise** — Alisa's management understood that because donor support was temporary a business was necessary.

**CAP's Social Enterprise training program** — The expertise and education Alisa's managers obtained through the CAP program was vital to strengthening and expanding their existing enterprises.

**Strong relations with stakeholders** — Mischenko forged relationships with private industry, nonprofit organizations and the government, which enabled Alisa Society to help establish the Social and Vocational Rehabilitation Center and receive support from the state and business sponsors.

## **Advice**

Based on her social enterprise experience Mischenko advises her fellow nonprofit managers:

**Mission Must Come First** - Weigh the pros and cons of starting a social enterprise; if the pros only benefit you it's wrong to start a business.

**Supporter and Partners** — It's important to have the support of family members, financial people and the local community and state.

**Find Business Visionaries** — Find extraordinary people with extraordinary ideas and have them implement their ideas. Visionaries will find unique strategies to achieve business goals.

**Conduct Market Research and Financial Projections** — It is essential to understand the market and do the calculations to demonstrate that you have a viable business idea *before* you implement. When an organization faces a crisis early in the businesses life cycle, most often market research shows the reason for the crisis, such as high competition, saturated market, wrong price, etc. The lesson here is to conduct and use market research in your business planning. If you cannot do market research on your own, find a consultant or hire a firm to do it for you.

**Hire a Good Accountant** — It is important to have a competent and trustworthy financial manager on your team.

**Stay Involved** — NGO directors should stay close to business operations even if their first priority is the social activities of the organization. NGO directors often need to intervene in crisis situations and ensure that the businesses do not lose their social focus.

**Capital** — Social enterprises need money, not only for start up, but also for cash flow and capital expenditures. Create an internal fund, or secure donors or sponsors that can provide grants or interest free loans.

**Watch the Market** — Self-confidence can create blind spots and social entrepreneurs can lose sight of changing market conditions. Those who think that they are the best can fail quickly because they don't notice the competition sneaking up behind them.

### **Svetlana Mischenko**

Mischenko attended the Teachers Faculty of Ukraine College and the Economics College in Kharkov. Prior to starting Alisa Society, Mischenko worked as an economist for a brick plant. She left to stay at home with her children when they were young. *"My children were both quiet and I got bored, so I started the organization,"* she says, with a smile. In truth, Mischenko was on a personal quest to rectify social attitudes about what people like her were capable of doing. It was not just a matter of influencing the community and public perceptions about the disabled, but also changing what they thought of themselves. When pressed on the claim that Mischenko is not an entrepreneur, she merely shrugs and says, *"in fact, I'm smart."* This simple statement captures the essence of what her intelligence and can-do attitude has accomplished.



### **CONTACT INFORMATION**

Mrs. Svetlana Mischenko  
Director, Alisa Society for Invalids  
169 Gor'kogo St., Kiev, Ukraine

Tel. (044) 269-28-71 / Fax: 269-0391

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## CASE STUDY: Peace Beauty Culture Association

*“Know where your passion, skills and economic drivers intersect and there you will find the best social enterprise concept.”*

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### Activities

- ( · S Theater (cultural and educational programs)
- ( · Fashion School
- ( · Computer and vocational courses
- ( · Information referral
- ( · Social clubs

### Clients:

- ( · Children and adolescents
- ( · Women
- ( · Low income families

### **The Enterprise**

This NGO founded *Creative Workshop* to produce and sell exclusive clothes for children and youth using natural fibers decorated with traditional Ukrainian art in contemporary designs. Revenue and profits are used to promote national pride, culture, and the arts through the theatre and schools while training youth in sustainable job skills.

### **Background**

In 1992, following the collapse of the Soviet Union, Valentyna Sazonova founded a women’s club in her hometown of Kherson, Ukraine. The club, dubbed “aha” or “illumination” in its English translation, was established to help women explore and discover creative ways to rebuild their lives in the new era—“aha!” Initially, Aha focused on helping its members solve their socioeconomic problems, but Sazonova soon realized that problems in the community were largely the cause of individuals’ problems and sought to spread the work of the club beyond its members. Conversely, she learned when club members engaged in community involvement they inadvertently helped themselves.

Then Valentyna Sazonova, a fashion designer by profession, got an idea to create a theater to educate children in the community at once about social problems and about art and culture. The Aha members staged a few shows closely connected to the activities of the club, and then in 1994, Sazonova launched a fashion theater, “S Theater.”

The premise of the S Theater was “beauty will save the world.” Each show focused on a social problem, using clothing and drama as a medium to raise social consciousness and to encourage participation in the community. On International Women’s Day, for example, Sazonova created a collection of dresses that demonstrated the complexity of women’s roles in daily life. The show dramatized how women could increase their potential through civic participation and community involvement. The show’s message was that women’s capabilities are beyond “kitchen and family” and they have a vital role to play in the

community. Another show concentrated on history and culture by portraying Ukraine's renaissance from the time of Kievites to the present.



Students learn basics of color and design in a fashion school art class

The activities of the club and theater were merged to form an NGO, and in 1996 Sazonova formally registered "Peace Beauty Culture (PBC)." The organization's name originates from the fashion theater's slogan. Peace, Beauty, Culture's express purpose is to invest in the social and cultural education of young people as a means to contribute to the development of Ukrainian society. Since its inception the organization has grown to offer a range of services. A "fashion school" where history, ecology, music, art and folk aesthetics, ethic and the psychology of success are taught was integrated into the S Theater. Students also learn about fashion design, tailoring and clothing production. The fashion school is the only one of its kind in Ukraine, and though it is not yet accredited, graduates receive certificates upon completion of the program. PBC also offers computer courses and vocational skills training for children and youth (especially

girls and orphans). The humanitarian assistance component of the NGO includes distribution of clothes produced in the fashion school to orphans and low-income families, and an information and referral service for parents and at-risk adolescents.

Early in Peace Beauty Culture's existence, Sazonova learned that there were substantial expenses associated with running NGO activities. Although PBC had some success raising grant money, managers understood that dependence upon donors' support and charitable contributions put PBC's operations at risk and slowed organizational development. Therefore, to cover staffing and other costs related to expansion, Sazonova incorporated fees-for-service into PBC's programs. Tuition for the fashion school and computer courses were offered on a sliding scale based on families' ability to pay, but because preference for attendance was given to low-income and indigent students and school fees were priced well below private tuition, Sazonova knew they would need to find an alternative solution.

Not long after PBC's incorporation, Sazonova's professional career began to accelerate. Previously, she had been working on contract with an Estonian clothing company from her home in Kherson, which allowed her to devote considerable volunteer time to PBC activities while earning a living. Now, Sazonova's work began to attract a wider international audience, and Moscow and London design houses pursued her with generous offers to relocate and develop their clothing lines. Sazonova was at a crossroads. On one hand her

Peace Beauty Culture's existing human, material and financial resources were leveraged and turned into productive assets.

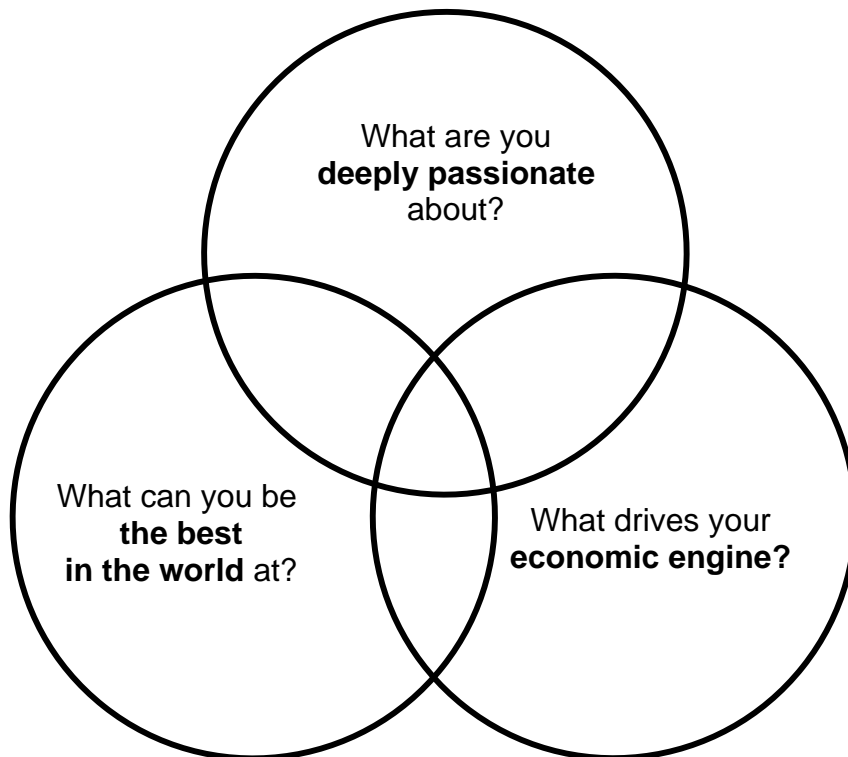
business was taking off, which presented an opportunity to exit economically troubled Ukraine and pursue an exciting future. On the other hand, she was reluctant to leave the community and the people she was helping behind. In the end Sazonova decided to stay in Kherson; she reconciled her dilemma by relating PBC's activities and her fashion design business more closely. She was also determined to grow Peace Beauty Culture; this way, Sazonova reasoned, her work with the NGO could become her livelihood.

**Peace Beauty Culture's Mission:** *To support social development through the provision of counseling, education and cultural services in order to unlock creative human potential, social awareness and participation in civic and cultural activities.*

## **Social Enterprise**

The creation of the social enterprise was fortuitous. It came at the time when Sazonova was contemplating financing options for the NGO and sought to integrate her business into the organization's programs. During this period, Sazonova read a popular business book, Good to Great, by John Collins, about how good companies achieved greatness. The book's main points are that: celebrity executives almost never lead companies to greatness; you can't achieve great things without great people; simplicity rules; entrepreneurial discipline is essential; and technology is an accelerator not a solution itself. Specifically, it was Collins's "Hedgehog Concept" that resonated with Sazonova. In brief, the Hedgehog Concept surmises that companies excel when they operate at the intersection of their passion, skill and economic drivers.

### **Hedgehog Concept**



Using the Hedgehog Concept as the basis for her thinking about a business venture, Sazonova answered the questions: What are you most passionate about; what can you be the best in the world at; and what drives your organization's economic engine? The result, "Creative Workshop," was the convergence of her passion for helping women, children and the community; her knowledge of and skill at teaching art, fashion and culture; and the market demand for her designs.

Creative Workshop, founded in early 2001, produces and sells exclusive clothes for children and youth using natural fabrics decorated with Ukrainian folkloric, historic and cultural details in contemporary designs. Most of the Creative Workshop's products are launched in S Theater shows. Sazonova says that the final decision to choose this business over other more lucrative opportunities was because it facilitates the work of the organization. The mission of the Creative Workshop is intertwined with PBC's mission. A second advantage was that the Creative Workshop leveraged Peace Beauty Culture's existing human, material and financial



**Sazonova fits a dress on model**

resources and turned them into productive assets. Sazonova also saw the Creative Workshop as a showcase to educate other NGO's about the benefits of social-purpose business.

The Creative Workshop was indeed a natural fit with Peace Beauty Culture. Sazonova created the designs, while the fashion school supplied production capacity: physical space, expertise, and low-cost labor (students) to produce the clothes. Sazonova's next challenge was finding markets for Creative Workshop's products. Sazonova began by showing clothing at local exhibitions and discovered that it was an effective venue to promote products, raise brand awareness and strengthen the NGO's image. The Creative Workshop has generated significant revenue to sustain PBC's activities through expos and festival sales, though Sazonova continues to seek new markets. She is currently planning to open retail shops and boutiques in Kiev and has moved Creative Workshop's administrative office from Kherson to Kiev to access a broader market. Sazonova has applied to the U.S.-Ukraine Foundation to fund an Internet initiative to enable the Creative Workshop to sell its products on line.

Based on their experience starting a social enterprise, Sazonova and her team are experimenting with corporate responsibility consulting. A CEO of a national prepared foods company asked to develop a partnership with Peace Beauty Culture. He contracted with Creative Workshop for creative services to develop his company's marketing materials, logo, and packaging design. Sazonova has worked as an executive coach to this CEO and taught effective team building skills to his employees. Additionally, Sazonova and the CEO are discussing a cause-related marketing campaign to promote his business using Peace Beauty Culture as a marketing vehicle. The organization would receive a percentage of the company's pre-tax profits.

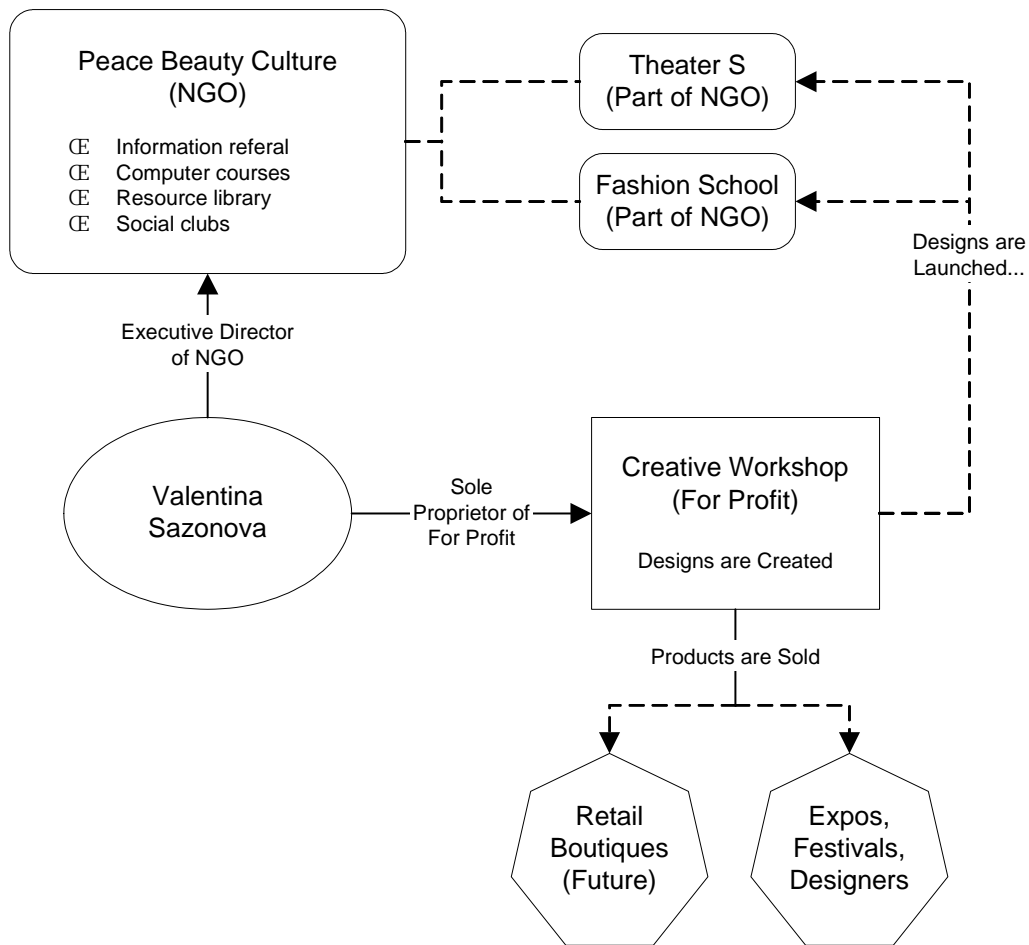
Of maneuvering legal requirements for starting a social enterprise, Sazonova says, "We felt like we were walking between raindrops."

In addition to funding PBC's operations, Sazonova would like to use some of the Creative Workshop profits to start another social enterprise in 2003 — making office furniture. The initial capital will be used to purchase necessary equipment for the new business and hire two workers.

Moreover, promotion for Creative Workshop was complementary to the organization, spurring public interest in PBC's activities in addition to reaching customers who wanted to buy products. Many parents willing to pay for their children to study at the fashion school approached Peace, Beauty, Culture, and subsequently the enrollment of full- and partial-pay tuition students increased to over 50 percent of the student body in 2001 and 75 percent in 2002.

Unlike some “mothers,” Sazonova does not hesitate to tell you which of her “children” she loves best. Sazonova admits that the nonprofit is her first love and the business is only a vehicle to sustain the organization's work.

### Peace Beauty Culture





## **Counterpart Alliance for Partnership (CAP) Social Enterprise Program**

The selection of Peace Beauty Culture to participate in the Counterpart Alliance for Partnership (CAP) Social Enterprise Program was fortuitous given that it came early in Sazonova's thinking about income-generation and a year before the launch of Creative Workshop (2000). When Sazonova and PBC program managers attended the first Social Enterprise training organized by CAP, they came with a few ideas and a desire to earn income for their NGO. The CAP Program helped Sazonova and the PBC team work through the Hedgehog Concept, craft their ideas into a viable business concept and learn how to leverage their existing assets to create a profitable social enterprise. Ultimately, CAP's training, technical assistance, and peer networking were instrumental in helping Sazonova and her team conceive Creative Workshop and start the social enterprise.

A year after beginning the CAP Social Enterprise Program, Sazonova and her team developed a business plan for their concept and the Creative Workshop was inaugurated. Peace Beauty Culture received a seed grant of \$4,000 from CAP to start the business as well as a \$1,000 loan for working capital. While the social enterprise was a logical choice for Peace Beauty Culture and showed strong market potential, the decision to start a venture was difficult for Sazonova due to the financial risks and high opportunity costs involved. Additionally, none of NGO managers had business-related expertise and there were several legal issues to consider in order to avoid jeopardizing the NGO's nonprofit registration.



**Sazonova's designs on display at Theater S show**

CAP provided legal council specialized in nonprofit law that recommended Sazonova, now Executive Director of Peace Beauty Culture, register herself as an “individual entrepreneur” and sole proprietor of the new business. According to the attorney this is the simplest way under Ukrainian law for an NGO to operate a business without risking its nonprofit status. Of maneuvering legal requirements for starting a social enterprise, Sazonova says, “We felt like we were walking between raindrops.”

“If it weren't for CAP, we wouldn't have a successful business,” Sazonova says. “Before the CAP Social Enterprise Program we couldn't imagine running a business. We were terrified. In each stage of developing our business we followed CAP's advice and applied what we learned in the training until we lost our fears. For example, when we needed to start advertising our products, CAP invited us for the advertising training. We learned about the “elevator pitch,” and how to develop marketing materials. Today, our trademark is legally registered. And it has all happened in the last two years.”

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## **Challenges**

**Market** — In 2001, PBC held an exposition in Kherson for Children’s Protection Day during which it conducted market research for Creative Workshop. PBC discovered that people wanted to purchase the products retail. They also found that demand for the products in Kherson was not large enough—although people wanted the clothing, due to local economic conditions and the city’s small population, the local market was too small for the business to be viable. Sazonova sought a larger market with greater purchasing power where PBC could sell its products retail. She decided to move Creative Workshop’s administrative and marketing office to Kiev and open a boutique. Sazonova’s ultimate vision is to open a chain of high-end children’s retail outlets in Ukraine and internationally, as well as selling products over the Internet.

**Managing Two Locations** — The solution to the problem of the small market caused another problem — managing two separate locations. Sazonova found that she could not manage PBC’s daily operations from a distance while running the business. Peace Beauty Culture was still immature and had many demands requiring full-time attention Sazonova was unable to give. She had to develop local managers for PBC and turn over responsibility, which was an emotionally difficult experience. Sazonova hired a full-time manager to direct the NGO operations and continued to serve as the executive director from Kiev. She also invested in mobile phones for herself and Kherson staff so they could maintain regular communication.

**Achieving Balance** — In the beginning demands on time and prioritization of activities created tension among the staff concerning the NGO and the social enterprise. The PBC team was foremost committed to the work of the organization and preferred to spend their time supporting its activities, rather than on business, which was perceived as a means to an end. Sazonova, however, realized there was no choice; in order to ensure the long-term sustainability of the NGO, she had to make the business venture her number one priority. Unlike many social enterprises where tension arises around the mission and the difficult choices that are made, sometimes at a social cost for economic gains, the Hedgehog Concept kept the team firmly grounded in PBC’s mission. Creative Workshop complemented PBC’s mission and everyone understood the business’s purpose. Interestingly, as Creative Workshop grew, Peace Beauty Culture benefited financially, strengthened its brand equity, and increased program participation and support through educational marketing efforts.

**Loan Servicing** — PBC’s \$1,000 loan from the CAP program was the organization’s first experience with debt and it had to be vigilant about making the payments on time. According to Sazonova, initially the experience was stressful, but proved useful. Not only did the loan provide working capital for the Creative Workshop, it helped PBC learn to manage finances and cash flow. Anxiety aside, the experience was empowering. Sazonova said, “We proved to ourselves we could do it. Now we have a credit history and can access other loans.” Currently, Sazonova is seeking investors for her Kiev boutique.

“In the beginning there were times when we thought we were making money, but had not fully accounted for our expenses and we were actually losing money. This was an eye opener!”

**Management** — Sazonova found that in Kiev the pace of life was much faster and more sophisticated than in Kherson. Kiev customers demanded a high level of service and professionalism. Creative Workshop’s managers were graduates of the fashion school, and came from underprivileged homes; they needed to learn customer service skills. Sazonova, on the other hand, needed to learn hard marketing skills to survive in Kiev’s competitive marketplace. In the beginning a lot of attention was paid to building management capacity. Sazonova worked to educate students about the Kiev market as well as to hone her own skills. She took a few more pages from John Collins’s book: “entrepreneurial discipline is essential” and “great things are achieved with great people.” Sazonova began to cultivate and develop leadership from within. The NGO and the social enterprise activities were developed according to individuals’ skills, interests, and passion, who in turn led and managed the various initiatives. Capacity-building efforts focused on the accumulation of the human and capital potential to fuel solid growth in the future.

**Marketing** — Sazonova learned that reaching Kiev consumers would require employing educational marketing techniques about her products. Creative Workshop’s hallmark was premium children’s clothes made from natural products with elements of folklore and story interwoven into contemporary design. Sophisticated Kiev urbanites preferred imports. Hugo Boss, Valentino, Calvin Klein and Gucci are highly profiled on Kiev’s main shopping district and attract Ukraine’s elite. Many of Creative Workshop’s potential customers perceived folkloric clothing as old-fashioned and out-of-date. Market penetration through educational marketing is both slow and costly. Sazonova believed, however, that a strong market existed for her products in Kiev, and knew that she couldn’t be committed to the business if its sole purpose was money. In response to Kiev’s market conditions, Sazonova carefully crafted a marketing plan, which included raising public awareness about her work through the media and showing her products at festivals and art expos. The latter are also an opportunity to test-market products to determine whether opening a retail store would be feasible.

**Financial Management** — For Sazonova and her team, who lacked business experience, understanding the basics of financial management and accounting was challenging. At first they needed to identify income and expense streams and assign each item to a chart of accounts. Sazonova studied accounting and tax laws, which have different requirements for nonprofits and business, and hired a financial manager to set up separate accounting systems for the NGO and the business. Gaining competence in cash management was essential, especially once the business had taken on debt. Sazonova said, “We had to understand the difference between revenue and profit. It seems obvious. However, in the beginning there were times when we thought we were making money, but had not fully accounted for our expenses and we were actually losing money. This was an eye opener!”

## **Financials**

In 2001, 50 percent (\$6,753) of Peace Beauty Culture’s costs were covered by earned income from Creative Workshop. PBC projects revenues of \$9,379 from Creative Workshop’s profits in 2002 (50 percent of PBC’s increased annual operating costs of \$18,757 (100,000 UAH). According to Sazonova, there is a possibility to secure some state funding for PBC’s educational program, which they applied for this year. Sazonova has adopted a strategic approach to financing PBC: She prefers to use grants for short-term projects and new program investments but not for reoccurring costs or operations. After the positive

experience with the \$1,000 loan from CAP, Sazonova would like to get a loan for \$3,000 to invest in the business and feels confident they could service interest payments of up to 12 percent. Sazonova had a choice: she could adjust her designs to look more like Western imports or she could try to develop the market for Creative Workshop's unique products. The former would be more lucrative in the short term, yet would cause Creative Workshop to shift its core business away from PBC's mission.

Income (in dollars)	2000	2001	2002 (est.)
Grants	\$8,441	0	0
Loans	1,000	0	0
Sponsors/contributions	938	3,376	9,379
In-kind support	0	3,376	0
Earned Income	0	6,753	9,379
<b>Expenses (in dollars)</b>			
NGO Operations	9,379	1,351	18,758

### **Social Impact and Business Results**

Peace Beauty Culture has achieved the following outcomes:

- Created a permanent funding source for Peace Beauty Culture from Creative Workshop and became less dependent of donors for support.
- Provided services for 2,720 clients in 2001.
- Created 12 new permanent and contract jobs.
- Raised awareness of social programs and spurred civil involvement, including 25–50 volunteer positions within the NGO.
- Generated 36,000 (UAH) toward covering nonprofit operations (50 percent) in 2001.
- Changed mindset and approach of PBC's nonprofit management.
- Increased brand equity and awareness of Peace Beauty Culture's programs.

Sazonova also speaks of the social capital generated by the social enterprise, which she identifies as clients, visitors to exhibitions, community goodwill and paying customers.

Social Impact	2001	2002 (projected)
<b>Fashion school 1996</b>	50 total students 20 free 10 partial pay 20 full pay	80 total students 20 free 30 partial pay 30 full pay
<b>Computer courses 1999</b>	150 total 75 full pay 75 free	160 total 80 full pay 80 free
<b>Information referral service 1999</b> <b>Social services for children and teenagers</b>	150 per month 1,800 total	350 per month 4,200 total
<b>Social and special interest clubs: "Aha," history, film, creative, philosophy, problem solving, etc. 1992</b>	60 per month 720 per year	100 per month 1,200 per year
<b>Total</b>	<b>2,870</b>	<b>5,640</b>

## **Key Success Factors**

Among the factors that led to the successful development of Creative Workshop:

**Hedgehog Concept.** Sazonova and her team found their best social enterprise concept by understanding where their passion, skills and economic drivers intersected.

**Disciplined people.** PBC's management team was composed of people who trusted each other and understood both the nonprofit mission and the necessity to create a permanent source of funding for the organization's activities.

**Balance NGO and business activities.** Sometimes one requires more time than the other. Sazonova learned how to prioritize activities of the NGO and the business, and always kept the mission first. Ultimately, PBC's mission drives all the social enterprise's decisions.

**Planning.** "Plan, plan, plan, write a business plan! And plan your strategy," Sazonova said. PBC management team wrote a business plan and mapped its business supply chain, which opened doors to new relationships with suppliers and marketing channels.

**CAP Social Enterprise Program.** "Without the CAP Social Enterprise Program we never could have started a business, let alone a successful one," Sazonova said. A source of technical assistance and training was a key factor in the success of Creative Workshop.

## **Advice**

Based on her social enterprise experience, Sazonova advises her fellow nonprofit managers:

**Go for new knowledge** — Learn from the private sector. There are a lot of great resources out there that NGOs don't take advantage of. In addition to John Collins, Sazonova has read: Tom Trout, Peter Drucker, Phillip Kotler, Tom Peters, etc.

**Believe in yourself** — Self-confidence can be difficult when you are trying something new, and starting a social enterprise is tough. So especially when times are dark, you need to find confidence in yourself. It's also good if you have a partner or spouse who believes in you, too, whenever you have a hint of doubt.

**Believe that a public organization can also do business** — A lot of people told us that an NGO could not have a successful business. Like believing in yourself, you have to know that business can work in nonprofits as well. Find peers working in other social enterprises if you need support.

**Don't be afraid of success** — A great saboteur of good ideas is fear.

**Learn the law** — The legal environment is tricky, and if you are naïve you can easily lose your business or your NGO because you have inadvertently broken the law.

**Learn how to market** — It's not just building a better mousetrap that sells mousetraps; it's

letting people know that you have a better mousetrap. Marketing is key: You can have a great product but if no one knows about it, you won't sell it.

**Make it fun** — Our maxim is “making the work place a great place.” We love what we do, but we also work at having fun. It's important, too, when you spend so much time doing something.

### **Valentyna Sazonova**

Peace Beauty Culture and Creative Workshop are family affairs. Valentyna Sazonova met Anton, who later became her husband, and together they created the NGO. They had first met years before the relationship blossomed when Anton was a student and had inadvertently taken down the wrong address of a physics tutor and showed up at her door instead. Then one Easter Sunday they met again and Sazonova says that she knew when she saw him that he was the very person she was looking for. Sazonova credits Anton for encouraging her to start and run Peace Beauty Culture as an NGO. “He was confident in the future and I was afraid of it.” Anton’s quiet demeanor and preference to stay in the background while Sazonova maintains the more public persona is misleading; the two make quite a formidable team. Sazonova smiles at Anton and said, “You have to believe in your dreams in everything you do.”



### **CONTACT INFORMATION**

Mrs. Valentyna Sazonova  
Director of the Peace Beauty Culture Association  
6 Suvorova St., Kherson, Ukraine

Tel / fax: (0552) 422-622

Email: [pbc@tlc.kherson.ua](mailto:pbc@tlc.kherson.ua)

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## CASE STUDY: Ariadna and the International Education Center for Youth

*"We learned to 'stick to the knitting' and start a social enterprise based on our core competencies"*

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### Activities

- ( · Economic, business and entrepreneurial education
- ( · International exchange
- ( · Teacher training

### Clients

- ( · Children from low-income families
- ( · Orphans
- ( · Disadvantaged women
- ( · Secondary students (scholarship and paying)

### **The Enterprise**

This Kharkov-based NGO provides public school students with access to high quality business and entrepreneurial education through its social enterprise, *International Education Center for Youth*. Profits are used to improve the social conditions and the standard of living for women and their families through education and counseling.

### **Background**

On Christmas Eve 1996 Taisiya Lazareva and a group of 50 other female teachers gathered in her Kharkov residence to create a new club aimed at improving the social conditions and the standard of living for women and children in post-Soviet Ukraine. The club's name, Ariadna, comes from ancient Greek mythology. Ariadne, daughter of King Minos, gave Theseus a ball of yarn to find his way through the Minotaur's labyrinth. Ariadna thus symbolizes "finding the way out."

The club's early programs were mainly educational in nature and focused on women's rights, cultural and ecological issues. In 1998 the club registered as an NGO and the following year was awarded a Counterpart Alliance for Partnership (CAP) grant for social service programs for children and families. The CAP grant was used to create an educational and counseling center for children. In 1999, it was christened the Ariadna Zhavoronok Center, after the first bird of spring because it was the first organization established to help children (ages 4 to 18) in crisis or at risk in the city of Kharkov. Since then, the Center has expanded its programs to include art therapy, pre-school, teacher training, and numerous education programs; and counseling and humanitarian assistance to families, single parents, alcoholics, and drug addicts. The Zhavoronok Center employs psychologists, social workers and educational specialists that rendered services to 1,500 clients in the first year (1999). Lazareva projects the Center will serve 5,500 children and parents in 2002.

Ariadna management prides itself on offering innovative activities in Ukraine. In addition to the Zhavoronok Center, Ariadna began an initiative concerned with protecting children's rights in support of the United Nations Convention on the Child. The organization also sponsors children-to-children entertainment concerts and learning exchanges between children of different economic backgrounds. Lazareva is planning a new "youth against terrorism" program in partnership with Azerbaijan (a large population of Azerbaijani Muslim children live in Kharkov). While devoted to these activities, Ariadna's management wanted to place greater program emphasis on skills development and economic empowerment programs. Lazareva and her team believed that one of Ariadna's organizational goals, "social adaptation programs for children and youth," could best be achieved through economic education.



**Children at Ariadna's Zharonovok center learn about Ukrainian culture and history**

Throughout its existence, Ariadna had been entirely grant funded, receiving support from the state, international donors and local sponsors. By late 1999 sources were drying up. The economy was faltering and government funding was decreasing; international donors were diverting their money from the newly independent states (NIS) to the crisis in the Balkans and elsewhere. At the same time the number of registered NGOs in Ukraine was growing, and competition for funding was becoming fierce. Lazareva and her team were increasingly uncomfortable with what they called "begging" for funding. They also realized that although donors were interested in supporting humanitarian assistance programs for children and disadvantaged families, the problem that

They were all teachers, and therefore began looking for business opportunities in education. Were there potential customers who could pay and were willing to pay for educational services?

Ariadna wanted to solve—i.e. economic empowerment through entrepreneurial education—was not seen as a priority by donors.

It was time to regroup. Ariadna's management did not want to change the NGO's strategy to accommodate donor priorities. They also analyzed the amount of time and human resources involved in seeking grants, estimating that fewer than three in 10 proposals were awarded grants. Lazareva came to the conclusion that the return on the organization's investment would be greater if Ariadna's management focused its efforts on earning money. During the same period, Ariadna had begun to collaborate with a youth organization called Leader. Lazareva's motivation for the partnership was the fresh perspective and new ideas to execute Ariadna's vision that the young people could bring. Leader's team encouraged Ariadna's management to earn money to sustain the organization. This solidified Ariadna's decision that the primary source of organizational funding should be earned income. Lazareva said, "In the beginning we had to learn how to survive and then we had to learn how to earn."

***Ariadna's Mission:** To improve the social conditions and the standard of living for women and their children by providing them with social and humanitarian assistance as well as professional development programs.*

## **Social Enterprise**

Devising a constant source of funding became vital to Ariadna's survival. "Culturally it was not hard to accept the notion of running a social enterprise and earning income," said Lazareva. "We were ready to start; we just needed help developing our ideas." Lazareva's determination and eagerness to learn about social enterprise gained Ariadna's acceptance into CAP's Social Enterprise training program. The training taught Lazareva to focus business ideas on Ariadna's core competencies. They were all teachers, and therefore began looking for business opportunities in education. Lazareva and her team analyzed the market to determine whether demand existed for educational services: Were there potential customers who *could* pay and were *willing to pay* for educational services? And what type of educational services did they *want* to buy?

Ariadna's management team had long since noted that poor education was a common problem among at-risk children. Lazareva found that this population had trouble learning practical skills, goal setting, self-discipline, and competitiveness. "For these children there is a gap between what is taught in school and the practical world," Lazareva said. "Today it's important to learn foreign languages, computer skills, business, and economics. Children of rich families can receive this type of education, whereas public schools teach 'old style academics' — mathematics, history, et cetera." Lazareva observed that educational curriculum had not evolved as quickly as reality. Economics and business courses did not give students the tools to function effectively in Ukraine's evolving market economy. "Economic growth in Ukraine is primarily in small- and medium-scale enterprise; however, people aren't learning business basics," Lazareva said. "Students finish school versed in classic literature, but they are economically illiterate. Jobs in Ukraine today are in business."

"Economic growth in Ukraine is primarily in [SME]; however, people aren't learning business basics. Students finish school versed in classic literature, but they are economically illiterate."





**IECY students at marketing competition**

Although practical economic education was needed in Ukrainian public schools, Ariadna's management already knew that donors were not willing to fund this. And developing new curriculum appropriate for Ukraine would require substantial investment. Furthermore, Lazareva was not convinced that Ariadna's target market—public school students from lower income, rural and disenfranchised families—had the ability to pay for educational services even if they wanted them.

The Ariadna team convened a meeting with Leader's managers to discuss the problem and explore this and other social enterprise concepts that fit with Ariadna's mission and could earn income for the organization.

In early 2000, NGO managers of both organizations were invited to an international education conference in St. Petersburg, Russia. During the conference Lazareva learned of a new interactive business and entrepreneurial training program for young people ages 14 to 17 developed by St. Petersburg College. Lazareva discovered that the program was excellent. The modular courses used a Socratic method that employed a mixture of didactic business theory and hands-on application. Lazareva thought using this training curriculum would save Ariadna the effort of "reinventing the wheel" and resolve the constraint of costly product development.

Leader, Ariadna and St. Petersburg College directors assembled to discuss a partnership or licensing agreement. Ultimately their conversations led to a NGO social enterprise joint venture. In September 2000, International Education Center of Youth (IECY) was launched to provide public school students with access to high-quality business and entrepreneurial education and prepare them for careers in a new economic era. IECY's long-term goal was to expand its programs throughout the newly independent states, but planned to focus locally first in the vicinity of Kharkov, Ukraine, and St. Petersburg, Russia.

Developing new teaching curriculums requires major investment because they must be tested and licensed. Using an existing product and adapting it was a much more cost- and time-efficient way to get the product to market.

Back in Ukraine, Lazareva sought support from local authorities for the program and to tackle the complex legal issues in front of them. After several months of negotiations Lazareva was able to form a partnership between the government and IECY. This was a major accomplishment because it meant that IECY's curriculum would be recognized and licensed by the state and could be integrated into schools. Founders were able to register IECY as an NGO, rather than a private enterprise, in Lazareva's name. From the state, the organization also received a building (with paid utilities) for IECY's headquarters.

International Education Center of Youth learned that there was high interest and desire among Ukrainian students to study its course materials. One year later, in October 2001, the social enterprise began its first business activity, an alternative educational program entitled “Social Adaptation of Children and Youth in the Ukrainian Market Environment through Supplementary Education.” The duration of the full diploma program is four years, and the course work covers marketing basics, micro- and macro-economics, management, accounting, and financial management, and so forth. IECY marketed its programs aggressively to public secondary schools. Within nine months, IECY was running 27 classes of 15 to 20 students in 14 Kharkov schools.

On the other hand, IECY found that most low-income parents did not have the ability to pay for their children’s education. IECY’s management team, which included Lazareva, applied ingenuity to its payment method and fee structure in order to make the services more affordable for its customers, as well as generating income. Rather than enroll in a class and pay tuition, students joined the NGO and paid membership fees of 7 UAH, less than two dollars per course (private schools charge significantly more, and parents have been known to bribe school administrators to ensure that their children are accepted). NGO membership fees are not recorded as income, and therefore not subject to tax, which reduces the cost of the service and makes it more affordable.

To cover costs, let alone make a profit, IECY needed to sell its services in very high volume, or reach a customer with greater purchasing power. IECY management chose to pursue both strategies. For the academic year 2001-02, its educational programs are serving 400 students from low- and middle-income families, and next year’s enrollment is projected at twice that—800 students. Prices are set on a sliding scale, based on ability to pay. Middle-income parents pay higher fees in order to subsidize poor students.

IECY has focused on rendering high-quality services to attract more students from families that can pay. Lazareva notes that there is room to raise its prices for wealthy students, which IECY will do next year. The IECY team feels strongly that they do not want to cave into financial pressure and move upmarket, excluding low-income students; therefore, IECY has secured scholarship funds from local businesses. Sixty percent of IECY’s poor and orphaned children receive scholarships. IECY management and Lazareva are also firm believers that all students should pay at least a small fee so they will value their education. Additionally, IECY earns money from book and publication sales, as complements to the course work. In the academic year 2001-02, IECY generated gross revenue of \$6,940.

CAP helped Ariadna's managers analyze the NGO's strengths and the market opportunities in order to come up with a venture idea.

Lazareva and the IECY team believe that there is a huge potential market for their program. There are 180 secondary schools in the Kharkov region alone, and IECY is currently only offering classes in 14. The goal is to penetrate 100 schools in the market by 2005. IECY projects program growth from 800 students this academic year (2002-03) to 3,000 students next academic year (2003-04). The management team is also adding new practical classes such as cheese and dairy production; business English; advanced computer programming; and multimedia classes. “It’s a continuous process of improvement,” Lazareva said. The management team meets twice a year at St. Petersburg College to develop new curriculum

and jointly conduct a Training of Trainers course for new teachers. The team has also sponsored educational programs and conferences to raise parents' and principals' awareness about its practical economic education programs.

Next year IECY plans to provide a range of professional business programs to disadvantaged women. Since Ariadna has managed a teacher training programs for several years, this service will be easy to add to IECY's other activities. A professional staff of teachers and recent graduates (teacher trainers) will instruct programs in management, business planning, office management, PR, and so forth. These courses will run between three and 24 months.

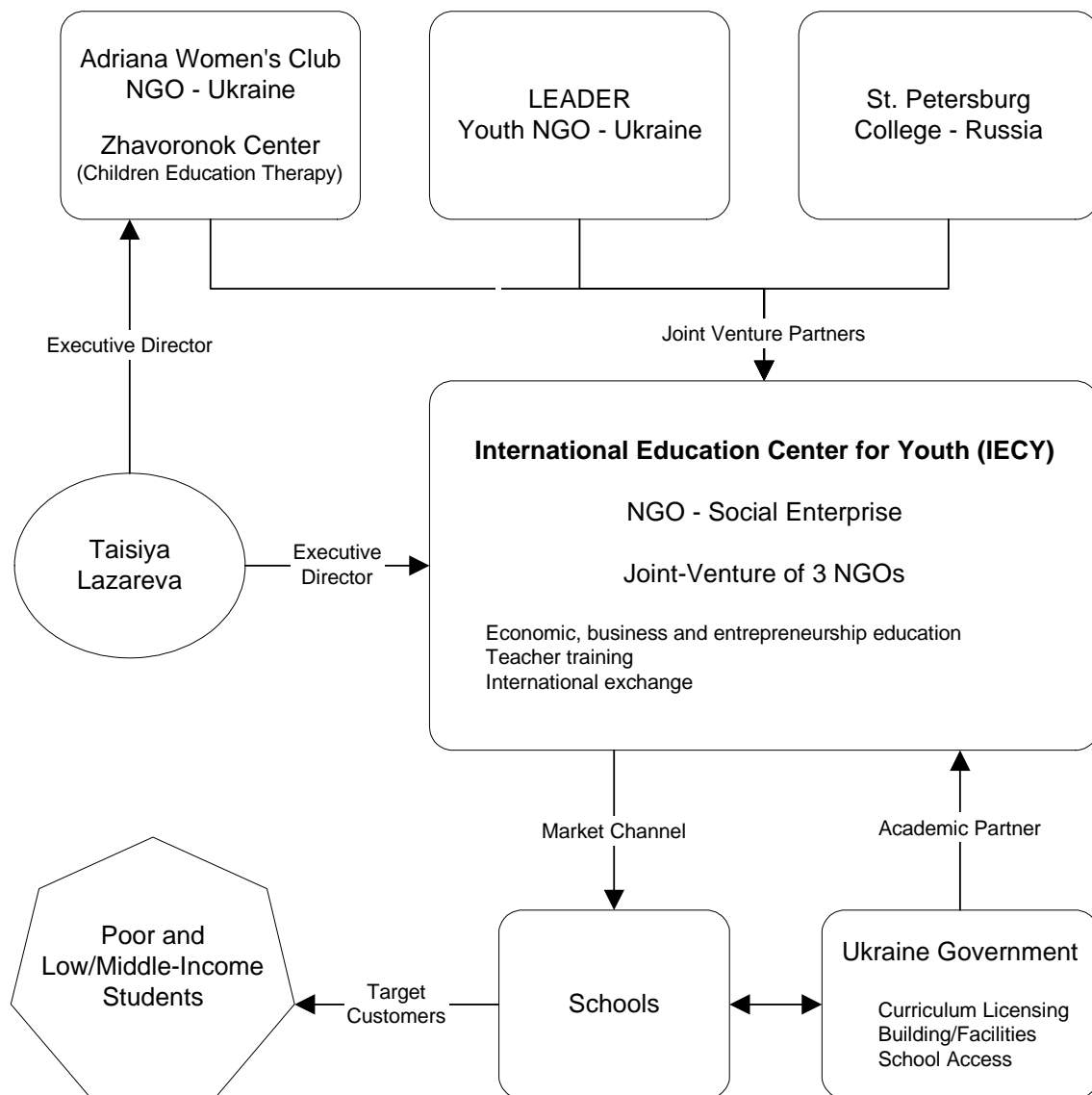
The positive experience with International Educational Center for Youth has converted Lazareva into an entrepreneur. She is practicing what her educational programs teach and has embarked on a new business venture. Unlike IECY, whose mission is integrated with its income-generating activities, the new venture is an auxiliary business created for the express purpose of earning income to fund Ariadna's operating costs.

In February 2002, Lazareva and Ariadna's management started a mobile communications company. Lazareva selected this business because it has high margins, relatively low start-up costs and the potential to be profitable quickly. They bought 72 mobile phones and equipment (and have since added 38 more, for a total of 100 phones), which they rent at discounted rates to the public. Lazareva projects that profits from this activity will cover some of Ariadna's overhead: public utilities, administrative salaries, rent, and publishing costs for IECY's educational products. Currently the business is functioning as a department of Ariadna, but will soon be legally registered to Lazareva as a for-profit sole proprietorship.

The mobile phone company is breaking even, but is not yet generating profit. "We need one more year to learn how to earn money before we have money to spend on the NGO," said Lazareva. She is, however, already plotting her next business, an intellectual property protection company. Lazareva believes that this could be a lucrative business due to the rapid growth of Ukraine's private industry and the fact that few such services exist in the country.

Lazareva is excited about her new venture and other ideas, but she is equally concerned about distraction. "We are only interested in these businesses because they will make Ariadna sustainable. They should never become more important than the business at hand—to improve the standard of living of women and children."

## International Education Center for Youth (IECY)



### **Counterpart Alliance for Partnership (CAP) Social Enterprise Program**

Ariadna received a seed grant from CAP to develop its educational programs, then Ariadna's managers were invited to attend CAP's Social Enterprise training program. The NGO managers had expertise in education, but not business. "CAP training was critical," said Lazareva. "We were motivated to learn, but had no idea where to start. We needed to identify not only what we wanted but also what we could do." CAP helped Ariadna's managers analyze the organization's strengths and the market opportunities in order to come up with a venture idea. "We learned to *'stick to the knitting,'*" Lazareva said coyly, as if testing the expression, "and start a social enterprise based on our *core competencies*—what we knew how to do best." Once Ariadna's managers decided to focus their new business on

education, CAP taught them how to develop the concept into a business model, study the market, find partners, and write a business plan. The training taught Ariadna's managers about legal and tax issues, helped Lazareva gain support from local authorities for her idea to create an educational center, and advised them on legal structures for the entity.

According to Lazareva, who identifies herself as a "planning person," the biggest benefit of the CAP training was the planning skills she learned. CAP taught Ariadna's managers the necessary planning steps, from setting objectives and performance targets to gathering market information to informed planning decisions. For example, CAP trainers taught Ariadna's managers to conduct focus groups of teachers and students. From this exercise they learned what kinds of educational programs people wanted and would pay for and then adapted their products to their customers' preferences. The research helped them plan their business model of offering education programs through schools rather than creating a parallel structure. Ariadna's managers also learned to develop and use different types of plans and consequently developed business, strategic and contingency plans for the social enterprise. Lazareva said, "We not only make plans; we live by our plans."

## **Challenges**

**Distribution Channel** — Using public schools as a distribution channel was challenging. Secondary school principals were afraid to make the decision to add new curriculum, despite need or interest, and the NGO had to get approval from district authorities to run the programs. Lazareva and the IECY team had to design a joint program with state authorities, which cost time and money, but has opened doors to all the schools. IECY also pays 12 percent of its earned income to schools to get the political support it needs. (Ironically, paying the schools a percentage worked as a marketing vehicle because principals and teachers were then eager to promote the program.)

**Human Resources** — Lazareva and the IECY team learned how difficult it was to find good teachers suited to teach their interactive approach. Teachers not only had to be competent with business curriculum and in touch with Ukraine's new business climate, but to a certain extent they had to be entrepreneurs and understand the social enterprise's mission. It was a tall order. IECY's business model required teachers' direct involvement in marketing the program to new schools. Some teachers were constrained by logistics, such as transportation to make the many visits necessary before securing a contract. Others were uncomfortable with making business deals or being paid on a commission basis for business development responsibilities and teaching, even though the wages were twice that of public school teachers, even before bonuses. Many lacked commitment to IECY's mission and saw their work simply as another job; others were just plain unqualified. IECY started with 15 people. A year later all but three had left or were let go.

Despite initial difficulties IECY has found good teachers. Lazareva learned the benefits of hiring recent university graduates. Leader has been instrumental in facilitating these relationships and assisting with recruitment. Fortunately, IECY is not bound by the same heavy legal conditions as public schools, including a requirement for teachers to hold special certificates, which seems to attract bureaucrats. IECY now has a director, three managers (soon five) to work with the teachers, and an accountant it shares with Ariadna. Lazareva

plans to hire a deputy to manage internal affairs, while she handles external affairs. Managers go to schools to introduce the program and then Lazareva closes the deal.

**Start-Up** — Lazareva and her team found laying the foundation for the first education program was very time-consuming. “It took nine months of knocking on doors. It was the true metaphor of having a baby and felt every bit as painful,” Lazareva said, smiling. Although the business model had teachers doing a large part of the legwork; in reality both principals and parents wanted to meet the director first. Lazareva made multiple visits to over 30 schools and secured 14 subscribers in the first year. Lazareva instituted a multi-level marketing strategy in the schools that helped achieve critical mass. Teachers receive bonuses for recruiting students to their courses, giving them a vested interest in the program’s success.

**Accounting** — There is still work to do. Lazareva said, “Accounting is a major hurdle. We are still trying to understand where our money comes from, the difference between revenue and profit, and sources and uses of funds, et cetera.” Ariadna’s accountant works with IECY 50 percent of the time, but has had a steep learning curve for social enterprise record-keeping. IECY’s accounting is complicated because of its structure, international partnership, bonus incentives for teachers and the practice of charging membership fees rather than tuition to avoid paying tax on this income. Lazareva plans to hire a full-time accountant with business experience to manage the books for the social enterprise and her new business. She is also committed to improving her financial education so she can make better financial choices. “I’m hopeless; I get earned income confused with grants,” she said with a smile.

## **Financials**

Since opening its doors, IECY has received no grants or donor funding. Profit margins in IECY’s educational programs are very slim. As a social enterprise whose income generation is integrated with its mission, IECY’s financial objective is program cost recovery. Volume will have to substantially increase in order to generate a profit. Beginning in September 2002, IECY will apply a percentage of fees from paying clients to fund Ariadna’s free education programs for women in need. In its first year of operations, IECY has broken even: Its income is roughly the same as costs. Overhead is low because IECY is housed in government-subsidized premises. At this point the organization’s number one expense is teachers’ salaries. The prospect of new programs in the near future is limited due to low capacity and few resources. All the NGO’s staff are volunteers, including the executive director, Lazareva, who’s compensated only for teaching the curriculum.

<b>Operating Costs</b>	<b>2001-2002</b>	<b>2002-2003</b>
NGO Social Programs	\$2,438	
Social enterprise operating costs <sup>2</sup>	4,877	
<b>Earned Income</b>		
School	6,753	13,505
Books	188	750

<sup>2</sup> IECY’s operating costs cover only: teachers’ salaries; 12 percent commission on total revenues paid to school; and a small percentage of publishing costs—most were donated last year. IECY receives office space, which includes utilities, from the state.

Lazareva projects income of 50,000 UAH per year (\$9,379) from Ariadna’s mobile phone business and believes that earning surplus revenue by the end of next year is doable. “The regulatory and economic environments are potential threats,” Lazareva said. “In Ukraine it is very hard to plan for more than two years because the political environment is changing and the market environment it still settling.”

### **Social Impact and Business Results**

International Education Center for Youth achieved the following outcomes:

<b>Adriana</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Zhavoronok Center Children served	120	3,000	4,500	5,500
Teacher training programs	-	1,500	1,500	1,500
Women’s education programs	-	-	-	45

### **IECY Results and Targets**

<b>Objectives</b>	<b>2001/2002</b>	<b>2002/2003</b>	<b>2003/2004</b>
Number of students	400	800	3,000
Number of teachers	17	27	85
Substitutes	3	6	12

### **Key Success Factors**

Among the factors that led to the successful development of Ariadna's social enterprise, the International Educational Center for Youth, the following should be noted:

**Partnership.** Launching the International Education Center for Youth as a joint venture made it much stronger than if it had been started independently by one of the three partners. Welding relationships built on complementarities among Ariadna, Leader, and St. Petersburg College greatly increased IECY’s chance of success because each organization brought different resources to the deal—product, contacts, name recognition, goodwill, staff, etc.

**Existing Product.** Ariadna’s decision not to reinvent the wheel saved a lot of time and resources. Developing new teaching curriculums requires major investment because they must be tested and licensed; the whole process can take years. Using an existing product and adapting it was a much more cost- and time-efficient way to get the product to market.

**Business Model.** IECY’s founders built income-generation into the model, not as an add-on or change to existing programs. Viewing the venture as a social enterprise meant managing to the financial and social bottom lines from the start. How to subsidize low-income students was planned from the start by IECY’s management.

**Relationships.** Although it took considerable time at the outset, the relationships that Lazareva built with schools and the state helped facilitate IECY’s rapid growth. Once Lazareva and her team were able to get authorities on their side, many new doors opened and they were able to penetrate the market through school channels.

**Training and Technical Assistance.** CAP's program provided Ariadna's managers with the business training and support required to start their social enterprise as well as the expertise to develop it effectively.

### **Advice**

**Do what you know** — Leverage core competencies in both your social enterprise and NGO activities.

**Market research** — Study demand, know exactly who your customers are and what they want and are willing to pay for.

**Involve youth** — We found that young people are more in touch with Ukraine's business environment and more comfortable with capitalism in general. Youth have fresh ideas and will ultimately determine the future, so it is important to listen to them.

**Educate yourself** — Take time to learn about business through courses, training, and self-education so you can be a more effective leader.

### **Taisiya Lazareva**

Taisiya Lazareva has been a teacher her entire professional life—more than three decades. She graduated from a teacher training institute and for the last 15 years has been instructing students to become teachers at the University in Kharkov. When she's not starting social enterprises or teaching, Lazareva is working on her dissertation to complete her doctoral degree. She only sleeps four hours a night. "I'm in a hurry to live; most of my life is behind me and I still have a lot of ideas and knowledge. It would be sad if I left this world without spreading this around."



**Lazareva (center) discusses work with her students**

Lazareva shared that her most memorable experience of starting the social enterprise was her first trip to St. Petersburg, Russia. The aim was to design a model for their program and to do so they took nine "customers" (students) with them. In Ukraine she had had a lot of pressure not to use Russian materials, but she proved that this was a good method. This



marked the first of many battles to be waged and many victories to be won. Everyone had a great time, and the Russian and Ukrainian students are still in touch. “Maybe one day they’ll also do a joint venture,” Lazareva said with a smile.

#### CONTACT INFORMATION

Mrs. Taisiya Lazareva  
Director, Women’s Club Ariadna  
5, Chigirina St., Kharkov, Ukraine

Tel: (0572) 27-41-29

Email: [andrey@ic.kharkov.ua](mailto:andrey@ic.kharkov.ua)



# Enterprise Development

*Small Businesses Build Big Economies*

Counterpart International is one of the world's leading providers of technical assistance to micro- and SME businesses in emerging economies. This 37-year old non-governmental organization works in nearly three dozen countries in central Europe, the former Soviet Union, Asia, Africa, Latin America and the Caribbean to create jobs and generate income. It does this by incubating the development, creation and expansion of businesses and the associations that represent and support them.

Private enterprise is pivotal to Counterpart. Economic development activities build upon the idea that healthy, stable small business communities foster the emergence of strong, conflict-free, market economies and viable democracies. To achieve this, Counterpart trains local entrepreneurs, small businesses and their associations to strengthen their capacity across a diverse range of challenges—management, finance, marketing, governance, advocacy—that are faced daily. As with any business, access to affordable credit is often the most critical ingredient to success. Here again, Counterpart is a leader in providing innovative tools to acquiring, managing and servicing credit.

Through these initiatives, Counterpart empowers entrepreneurs as they acquire the know-how and means to improve the standard of living for their families and those who benefit from their efforts; expand the availability of goods and services in the marketplace through businesses' strengthened capacity to improve its output and efficiency; and contribute to their communities as they become financially stronger. Always, Counterpart's economic development activities are demand-driven; undertaken in partnership with local institutions; community-accepted; and cognizant of weaving its enterprise development precepts throughout communities' extensive needs—from healthcare to environment to food security. Counterpart has expertise to deliver programs in the following areas:

**Credit.** Counterpart offers a range of debt and equity financing and loan servicing options at the micro and SME levels. It relies on both individual, business and "group lending" repayment mechanisms.

**Community Economic Development.** Counterpart works in partnership with communities to assess key economic problems and develops strategic interventions to address them.

**Training.** Counterpart assesses small business needs in areas such as accounting, planning, etc., then provides training to small groups of like businesses, e.g. accounting or advertising firms.

**Incubators.** Counterpart offers subsidized facility space and services to nascent small businesses to develop and grow. Synergies are encouraged among the incubator firms to utilize the services of one another.

**Technical Assistance.** Counterpart offers one-on-one technical assistance to entrepreneurs and firms on an as-needed basis.

**Association Institutional Building.** Counterpart builds the capacity of associations to support small businesses in areas of management, finance, governance, marketing and advocacy.

**Social Enterprise Development.** Counterpart helps NGOs generate revenue by creating wholly-owned businesses that will both foster financial sustainability and support the NGOs overall mission.



*An entrepreneur hard at work in Zimbabwe.*

*For More Information, Navigate to:*  
[www.counterpart.org](http://www.counterpart.org)



**COUNTERPART**

**Counterpart International**

1200 18<sup>th</sup> Street, NW  
Suite 1100  
Washington DC 20036

Telephone: 202-296-9676  
Fax: 202-296-9679  
[www.counterpart.org](http://www.counterpart.org)