

Income Generating Projects

Guidelines

How to get started

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Introduction

A branch of the Ghana Red Cross Society rents out canopies and chairs to businesses and other groups for weddings, funerals and special functions of all kinds. Income from this activity supports branch social welfare projects.

In Laos, some Red Cross branches supplement their income by providing parking spaces for motor-bikes during local and national public festivals.

In Belize, the Red Cross operates a highly visible snack shop near a hospital, drawing customers from the hospital and general public.

These are examples of Income Generating Projects (IGPs) which many Red Cross and Red Crescent Societies (RC/RC) around the world operate as one means of financing their work. There are more examples of IGPs, both simple and complex, as the reader will see throughout this paper.

IGPs are found at both headquarters and branch level. Some National Societies develop and conduct IGPs at headquarters then provide ideas, technical assistance and seed capital to branches

When successful, IGPs can give a National Society (NS) the funds to expand its social programs and help maintain its autonomy. However, there are also risks involved in IGPs. An IGP is a business venture and running a business is never easy, particularly at the start. RC/RC societies and branches thinking of starting an IGP must therefore prepare themselves well.

This publication is intended to be used mainly by Fund-raising and Income Generating Managers, Officers or Practitioners in National Societies. We look forward to receiving any constructive feedback on this guide as well as the sharing of your experiences and lessons learnt. Please feel free to get in touch with OD Senior Officer Jean Francois Goulay (goulay@ifrc.org), who is leading this work in our team.

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1. Purpose of the Guidelines

The objective of these guidelines is to assist RC/RC Societies and branches to succeed with their IGPs. Focus is placed on *how to get started* but the guidelines may also be useful in improving *on-going* IGPs. The guidelines may be used as a complement to the Resource Development Handbook. In fact, it would be good to read Chapter 9 of the Handbook, “Generating Revenue”, before proceeding further.

These guidelines have been prepared **primarily** for:

- RC/RC societies and branches wishing to start IGPs, and
- Those with only limited experience with IGPs, wanting to improve performance.
- **Secondarily**, the guidelines may be useful for:
 - RC/RC delegates and
 - Participating National Societies (PNS) that are supporting IGPs.

There are various ways the guidelines may be used, For example:

- as an instruction manual when starting an IGP,
- for reference when questions arise,
- as a guide for trainers/facilitators in workshops on IGPs.

The guidelines are intended to give the reader a general understanding of the nature of IGPs, to inspire ideas and initiatives and point out risks.

It is assumed that the reader has some, but limited, previous experience of business management.

The guidelines must be interpreted in the context of the reality of each National Society. Because the guidelines can not cover everything, the last chapter deals with where to go for additional assistance. But remember, in the end it is the creativity, energy, discipline and persistence of the National Society itself that brings about successful IGPs!

2. Content of the guidelines

You will find that the guidelines’ *main text* explains basic concepts and what to think about when starting and running an IGP. This is complemented with brief case *studies* of actual or imaginary IGPs. The cases serve as examples, illustrating the topics covered in that chapter. Each chapter ends with a *checklist*, containing some of the essential points you have to think about. A comprehensive Checklist is found in Annex 1. The checklists can be used to evaluate your business idea, and to see if it is feasible. If you have good answers to all the questions, you may go ahead. Otherwise, it is better to reconsider your business idea and take measures, if possible, to address the identified weaknesses before proceeding.

Use these guidelines with good judgment and with special attention to your particular situation.

Starting point

Before getting into the practical matters of IGP, we will look at some definitions and basic assumptions.

1. What is income generation?

Income, cost and profit

Income refers to the total income received from an activity, such as the sales from a business or money received for performing a service, such as first aid training fees.

A business activity is also accompanied by *costs*. Cost is the economic value needed to acquire something. The cost of a business is the value of the resources consumed in order to get the income. For example for an IGP selling “copy and printing services” the paper, cartridges and use of the copy machines are *costs*. Staff salaries are also costs. The *income* of the IGP is what the customers pay for the copying and printing.

Profit is the positive difference that comes from selling products¹ for more than the cost of producing these (Income - Costs = Profit). Loss is the opposite of profit and means that the costs exceed the incomes.

The purpose of an IGP is to make a profit, not just to cover expenses. It is the *profit* from an IGP that gives the NS the income to support its programs.

Warning: If the income is smaller than the costs it implies a loss and net cost for the NS, which will have to be covered from somewhere!

Financial and other values

One must distinguish between *financial* costs and income and other values. The financial cost and income is the money coming in or going out of the IGP, i.e. what you will find reflected in the accounting records. However, there are also values such as social benefit and goodwill, which cannot be expressed in financial terms. Nor does voluntary community work give rise to any financial transaction. However, it still represents the use of a valuable and scarce resource and is in this sense a cost.

Hence, a distinction must also be made between whether an activity is profitable in a *financial perspective* or in an overall *socioeconomic perspective*.

1. In the word “product” we include both goods and services.

Objectives of an IGP

Different NS activities have different objectives, for example:

- fulfilling social needs,
- strengthening NS capacity ,
- generating NS financial incomes.

An IGP should be defined as an activity *the main purpose* of which is to generate a financial profit. An IGP can of course include other objectives as well, such as social benefits and internal capacity building. However, in an IGP these are secondary. An IGP can thus be neutral or supportive to the overall mission of the NS. However, it should of course not be contrary to the mission and principles of the Movement.

Note: Projects with the purpose of assisting *community members* to make an income is not to be considered an IGP as their aim from NS perspective is social, and not to generate profit for the NS.

Similarly, there are social activities which apart from meeting their social objectives generate some income. Some of them are perhaps self-financed and some could even be running with a profit. However, the difference between an IGP and a social project does not lie in *how much* income they generate. What distinguishes them is that their main objectives, and hence the criteria for evaluation, differ.

Single or multiple objectives of an IGP

Example 1: Provincial offices of the Zimbabwe RC Society have kiosks (snack bars) at hospitals around the country. The first kiosks were started in 1980 and by 1997 there were more than 30. The purpose of the IGP is twofold: the first and most important objective is to strengthen the Society's financial base. The second objective is to provide a community service by offering basic items like food, stationery and toiletry material to patients, visitors and hospital staff. Since the majority of the customers are patients in bed, ZRCS kiosks also sell products from trolleys bringing the merchandise to the hospital room.

Example 2: The Swedish Red Cross runs shops with second hand clothes, furniture and other items. One of the objectives of these shops is to generate a profit, but there are other objectives as well. The shops have made it possible to engage elderly people, refugees and jobless people in the activities, providing an important social dimension. In connection with the shops, there is often a café, that is used as a meeting place and also giving the NS a presence in the community. Behind the idea of making use of second hand items, there is also an environmental objective that is, recycling.

Example 3: The Northern branch of the Ghana RC Society rents canopies and plastic chairs to small businesses. The only objective of the IGP is to generate a profit. The profit is used to fund various social activities.

Difference between income generation and fundraising

There are many ways of getting incomes. Most RC/RC Societies are familiar with fundraising, where people are asked to contribute money, as a contribution to the work of the NS. However, income generation means having people give money *in exchange* for something they want.

The costs involved usually differ between fundraising and IGPs. Fundraising can often be done with a relatively limited investment. With most fundraising activities, there is much to gain and relatively little to lose. An IGP often requires some kind of investment and there is thus more to lose. The Resource Development Handbook talks about the “resource development ratio”, i.e. the total income raised by resource development divided by the costs of raising it. For an IGP this ratio can generally be expected to be higher than for a fundraising activity. There are exceptions to this, of course. On the other hand, income from donations can never be taken for granted. A *well functioning* IGP however, can give a relatively stable source of income.

Sometimes there is a fine line between fundraising and income generation. People may want to buy something, or pay a higher price for it, just because they know that the profit goes to the RC/RC.

Summing up: an IGP can be defined as an activity with the main objective of generating a financial profit, by offering people something that they are willing to pay for.

2. Income Generation within the RC/RC

Why do National Societies engage in Income Generation?

The RC/RC Movement is humanitarian, nonprofit and voluntary.

- As a *humanitarian* organization the Movement needs financial resources to fulfill its humanitarian objectives.
- Being a *nonprofit* organization implies that generating income is never an objective in itself. The mandate is to enable the National Society to meet the needs of its beneficiaries.
- Being a *voluntary* organization means that operations primarily should be financed by voluntary contributions. However, an IGP may be an important complement.

Since income generation is a *means* for NS rather than an objective in itself, the key question becomes: how do you intend to use the profit of the IGP?

Some possible answers are:

- to finance programs with humanitarian objectives,
- to finance administration and overheads,
- to enhance the capacity of the organization,
- to diversify funding and avoid dependency on a single donor,
- to increase autonomy and flexibility by generating unearmarked funds.

Note: Part of the profit of an IGP usually has to be reinvested in the IGP in order to ensure continuity of the business activity.

How profits from IGPs can be used

Example 1: As mentioned, branches of the Zimbabwe RC Society have kiosks at hospitals. Although providing community service is considered one objective of the IGP, the main objective is to generate income. The profits generated from the kiosks are used in the following manner:

- 30% is used by the Branch for different community service activities,
- 40% is used by the Branch for administration and volunteer support services,
- 15 % is used by the local District office for other IGPs and to cover administration and supervision costs for the kiosks,
- 15% used by the Province office to finance District offices which do not have IGPs.

Example 2: The St. Petersburg branch of the Russian RC receives and sells second hand clothes, generating substantial income. The use of this income has changed over time. During one period, the money made was used to buy food stuffs for Chechenyan refugees. However, recognizing the need to find long term solutions to the branch's financial problems, an increased share has been invested in branch development activities.

The IGP and the National Resource Development Plan

Resource development is the process of obtaining the resources needed by a National Society to carry out its plan to provide programs and services to the most vulnerable. If the National Society has no such plan, it will be difficult to answer the question: “why are we raising money”? Financial resource development, whether it means obtaining voluntary contributions or generating income from commercial activities, must be “program driven”.

In the broadest sense, resource development implies building institutional capacity, strengthening and diversifying the financial base and working towards financial self-reliance. It involves developing ways to access and utilize available resources to the maximum benefit of a National

Society's program. This means that soliciting cash contributions, cost recovery, cost control and savings are all part of the resource development picture. **In the same way, IGPs should be seen as *one component not the only component* of the total resource development plan of a National Society.**

Further, a National Society might embark on a risky IGP when what is really needed is to decrease costs of traditional activities or intensify/expand existing fundraising activities. **An IGP can only be justified in the context of an overall resource development plan.**

Roles and responsibilities

A IGP can be managed at several levels:

- National Society level,
- branch level,
- branch cooperation,
- with or without the assistance of a donor National Society

The National Society headquarters has the overall responsibility for national resource development. It needs to guide, assist and audit the IGP work at national and branch level. Branches are also responsible to report to the National Society headquarters. Branches will also have things to learn from each other.

A crucial question is who should get access to the profit from an IGP or finance the possible losses! Since funding policies and division of roles between headquarters vary among different countries, no general rule can be given here. However, **all concerned parties especially headquarters and branches must be clear about roles and responsibilities as well as how profits/loss should be distributed.**

Starting Point

- What is the main objective of the project?
- Are there other, additional, objectives?
- How will you use the profit?
Do you have a national development plan for program goals and objectives?

Do you have an overall Resource Development Plan?
- How does the IGP fit into the this plan?
- Is the IGP in accordance with the basic principles and objectives of the Movement?
- Will the IGP contribute to improve affect the image of the NS?
Who will manage the project(s)?
- How will the IGP be coordinated within the NS and branch and national level?
- How will profit/loss be distributed/covered?

Selecting the activity

To start an IGP, you must first select an area of activity. You may already have a general idea of what you want to do. If so, you need to analyze this idea carefully and elaborate it. You may even have several ideas. If this is the case, you must somehow select the best one. Perhaps you are still searching for a suitable and profitable activity. If so, you might carry out a brainstorming session with a select group of creative business oriented persons in your community, then do an analysis of the most promising ideas. You may start by analyzing your own Strengths and Weaknesses in relation to each idea and look at Opportunities and Threats in your local business environment. This exercise, known as a SWOT analysis, is explained in Annex 2.

In any case, this phase is important. Invest time in it. Involve key people. Do your research.

This and the following chapters will help you to identify your business idea and assess it.

1. The business idea

The starting point of any income generating activity is the business idea. A business idea is a definition of:

- what product you will sell,
- who you will sell it to,
- what customer need you will meet,
- how you will sell it.

Examples of different business ideas

Example 1: Several branches in the Lao RC offer safe parking for motorbikes during public festivals. Motorbikes are the most common private transportation in Laos and during local and national festivals there is a demand for safe, convenient and cheap parking. The branches set up temporary parking areas and charge for parking.

Example 2: As mentioned earlier, the Northern Region Branch of the Ghana RC Society rents plastic chairs and canopies. The customers are urban based small enterprises and the chairs and canopies are displayed in a room and rented from the branch office. The customers prefer to rent from the RC because the products are clean and of good quality and it is cheaper and more convenient to rent chairs and canopies than to buy them.

Example 3: The Belize RC Society has a snack shop offering food for breakfast and lunch and drinks. The snack shop, located close to the hospital, serves civil servants, teachers, hospital staff and rural students visiting Belize City.

The business idea should be determined by considering the business environment, the market and the demand. You can also test the business idea by looking again at your own Strengths and Weaknesses as well as Opportunities and Threats (SWOT). Moreover, the suitability of the IGP for a humanitarian organization like the RC/RC should be considered. For your National Society there are both suitable and non appropriate IGPs!

Avoid competing with a good donor. Example: a local fast food restaurant is one of your contributors. Should you open a competing restaurant? Weigh the risks.

2. The market

For any business, there is a specific *business environment* with its particular actors:

- the clients, buying your products,
- the suppliers, from which you get input for the activity,
- the competitors, offering similar products to the same type of clients,
- the regulating entities, such as government, tax authorities etc.

With *market* we refer to the buyers and sellers of a specific product, in a specific area. A market can be divided into different market *segments*, each segment representing buyers with specific characteristics.

Examples of different market segments

Market segment 1: clothes bought by Mayan Indians with considerable income. The products of preference are clothes of high quality with elaborate colors and traditional design but according to the latest fashion among the Mayan women. Prices are high and the clothes are sold at larger markets all over Guatemala.

Market segment 2: clothes bought by Mayan Indians with low income. The products are of lower quality, elaborate colors and traditional design. Prices are low. The products are sold in markets all over Guatemala.

Market segment 3: expensive clothes bought by tourists or foreigners. Often the clothes are bought as souvenirs and will be used as art or handicraft, i.e. displayed on a wall. The products are of high quality, traditional design, sometimes in different color tones according to "foreign" taste and prices are high. The products are sold in expensive shops or markets in a few places visited by tourists.

Market segment 4: cheaper clothes bought by tourists or foreigners. Clothes can be bought both as souvenirs (arts or handicrafts) or can be used as clothes. The quality is lower than market segments three and one, prices should be cheap and sometimes design is altered to match the foreign taste. Colors are often milder than for market segments one and two. The products are sold in markets visited by tourists and at "cheaper" shops in tourist places.

An example of a market and its segments is the market for hand-woven women's clothing of Maya Indian style in Guatemala, Central America.

Each market and, to some degree, each segment has its own way of working. The products are sold in different places and in different manners. There are also different ways sellers inform the buyers of the products and services. In order to operate successfully, you must know the business environment in which you are going to act!

3. Market demand

As you expect people to pay for what you are offering them, you must always ask the question: *what does the client want?* Thus, one of the fundamental questions when evaluating a business idea is whether there is a *demand* for the product. Market demand refers to:

...the *quantity* that can be sold
...of a particular *product*,
...with particular *features*,
...in a particular *market* or *market segment*,
...at a particular *price*.

In order to find out if there is a demand for your product you should ask the following:

- What market and market segment are we targeting?
- What products are bought by the customers in this market/market segment?
- What product characteristics (e.g. feature and quality) do the clients require?
- What prices for a product with certain characteristics are the clients prepared to pay?

The analysis of these topics is called market study or market research. Sometimes this research can be done by the RC/RC itself. However in situations where the IGP is a high risk and requires a large investment it can be advisable to contract an institution specialized in market research to define the market and the product characteristics.

Note: You must of course always consider the competition. It is not enough to have a good product at a good price. The client will go for the product and price that is *best!*

If the analysis for a given business idea shows that there is not sufficient demand, you must revise it or look for another business idea.

4. Looking at strengths and weaknesses, opportunities and threats

When you have defined your business idea, analyzed the business environment and come to the conclusion that there is a demand, you may also test your business idea by doing a SWOT analysis.

Strengths and weaknesses

As mentioned above, you will always face competition. Therefore you must choose a business idea where you have some advantage over the others, i.e. where you have a competitive strength.

To analyze strengths and weaknesses you look inside your organization for things you can influence yourself. You should analyze your strengths and weaknesses in relation to the specific business idea you are considering.

Strengths are what give you an advantage over your competitors. First you need to identify the resources needed and activities to be carried out. Then you ask: in what respect are we better than the others? Typical strengths of most RC/RC Societies are competence in health and social work, organizational capacity, a well known emblem and goodwill from society. Consider your National

Society's existing resources and the expertise of staff and volunteers. For example: do you have a kitchen and cook preparing meals delivered to the elderly or shutins? If so, consider starting a catering service or food delivery service.

The weaknesses for a RC/RC branch may include limited previous experience of the particular line of business, lack of expertise and limited commercial contacts. Do not overlook your strengths or your weaknesses! If you find that you have many strengths and few important weaknesses it is a good sign and you may proceed. Otherwise, you should look for a different business idea where you have a comparative strength over your competitors.

Opportunities and threats

In order to assess the future perspectives of your business you can analyze *opportunities and threats*. These are factors in your business environment which you cannot influence yourself. *Opportunities* are those things which will be positive for your business, for example that there are no other shops selling cheap clothes. *Threats* are all things in the business environment which might hurt your business, for example that you are unsure whether you will receive more second hand clothes in the future. If there are important threats to your business idea, you should carefully consider whether to invest in it. Maybe it is better to look for an IGP with better opportunities. See "User's Guide for SWOT Analysis", Annex 2.

Analyzing Strengths, Weaknesses, Opportunities and Threats

The Headquarters of a RC Society in a Central American country is thinking of starting a guest house. The market segment which will be targeted is *international visitors on vacation or work who look for good accommodation at less expensive rates than hotels*. Most hotels charge between US\$ 70 to 150 per night. The National Society has concluded that there is a demand for a moderately priced hotel service. The next step in their analysis is to look at strengths, weaknesses, opportunities and threats. The results of the analysis were the following:

Strengths of the NS in running a guest house compared to competition.

- good position to market the service to other donor organizations and companies in the region,
- good reputation of NS will raise the image of the guest house,
- the building to be used for the guest house is owned by the NS and has a central location - an area liked by visitors.

Weaknesses of the NS in running a guest house compared to competition:

- The NS has little previous experience of managing guest houses,
- limited knowledge of the type of customer and their preferences,
- no established connections with suppliers of food and drinks.

Opportunities for the RC guest house:

- little competition in the market segment, i.e. there are no other guest houses targeting the same customers. The hotels are either much more expensive and very luxurious or much cheaper and of bad quality.
- international traveling to the capital is increasing annually and due to the recent peace accords it can be expected that both business and pleasure travel will increase.

Threats for the RC guest house:

- if the crime in the country continues to increase, international visitors might be scared away from the country.

Conclusion of the analysis:

The Society concludes that it has several important strengths that could lead to a successful guest house project. The weaknesses of the NS are definitely a limitation but can be overcome by employing a guest house director with previous experience from the hotel business. There are more opportunities than threats. Therefore, considering the SWOT analysis, the IGP looks promising. Naturally, the analysis of the market demand and the SWOT have to be complemented by an analysis of the profitability and the financial requirements of the business.

These issues are covered in chapter 4 and 5.

5. Suitable activities for the RC/RC

When selecting a business activity, you must consider the fact that RC/RC is a humanitarian organization and not a commercial business. The suitability of the activity for RC/RC should be analyzed.

Different strategies

Working primarily in the social and humanitarian field, the National Society or branch may choose from *three main strategies*.

■ Cost recovery

This implies that the NS tries to charge for its services and in this way generates an income. In fact, cost recovery often means a mix between an IGP and a social project. Apart from generating an income, it has the advantage of making people aware of the value of the services provided by the NS. Paying a certain amount for services may also provide more dignity to clients than receiving things for free. However, a limitation to this approach is that the target population often can not afford to pay. Nobody in need should be denied a service because he/she lacks purchasing power.

■ Mission related activities

This means that the NS will sell a product or service which somehow is related to its normal activities. Examples could be to sell first aid courses to companies, or transportation services if there is surplus capacity of vehicles. In this way, NS can make use of its existing know-how and facilities. There may also be synergy of different sorts. A restaurant, for example, can be used for both business purposes and for social services.

■ Non mission related activities

A third strategy is to start something that has nothing to do with the normal work of the NS, be it bakeries, bee hives or livestock; anything that can generate a profit! There are many options. The problem is that NS seldom has the know-how and comparative advantages if activities are distant from its true mission. It may also affect the image of the NS if the organization engages in something that the public views as completely different from its normal work.

Important: the closer the IGP is to the core work of the organization, the more likely that it is competitive!

Different strategies for a NS IGP

Example of cost recovery: A NS in a country in Southeast Asia runs a clinic in a poor urban area. The clinic used to be financed through grants from a donor NS but due to financial problems they have announced that their contributions have to be reduced. The NS is now trying to increase cost recovery for the clinic's service. They have developed two strategies. The first strategy involves a contribution from the Ministry of Health and the second strategy is to charge for medicine which were previously provided for free.

Example of mission related service: The National Society in a Northern European country once offered free first aid courses to interested persons. The Society needed to raise its income so began selling first aid courses to companies and organizations. The price charged for the courses now covers the cost of the course and generates a surplus for the National Society.

Example of non mission related service: The National Red Crescent and Red Cross Society of the Republic of Kazakhstan has started a bakery and minimill for processing of agricultural produce. They sell both retail and wholesale.

Visibility and image

As a voluntary organization relying on donations from the public, the NS must consider the impact of the IGP on its image. It must be clear to donors and to the public that IGP activity is not replacing fundraising and the need for voluntary contributions - rather it is supplementing donations.

If the IGP provides a valuable service to the community and it is clear to everyone that the money will support National Society activities, the IGP can improve the image of the NS. However, the effect may just as well be the opposite if, for example, the NS engages in activities which are very distant from its mission. The image of the NS as a humanitarian organization can also be distorted if the IGPs are too many and too large.

Therefore, the NS must carefully consider what activities to get involved in and also be very clear to the public about *why* it is engaging in business and *how* the profit will be used. Furthermore, the NS should not be associated with companies and organizations that could lead to poor publicity.

Credibility is essential for successful resource development for a nonprofit organization! Do not lose it because of an unsuitable IGP!

Ethics

The National Society and the Movement also represent a set of values and principles. Even though the immediate objective of the IGP is to generate profit, the IGP should never be contrary to the fundamental principles of the RC/RC Movement or create adverse social effects for the local community and its members.

Needless to say, it is not only a matter of which activity to choose but also how this activity is run. Whether fundraising, running an IGP or managing social programs, a National Society must always live up to the same high standard of ethics and behavior, including transparency and accountability (See Annex III - Code of Ethics and Professional Conduct for Red Cross and Red Crescent Fundraisers).

National Society policies

Moreover, the activities should not be contradictory to National Society policies at national level. If for example the national plans in a given country prohibit the sale of used clothes, a branch in that country should not start such sales.

Available Resources

The National Society must also consider how much time and resources can be devoted to IGPs. Will the organization still be able to undertake its other activities when it runs the IGP? Can senior management afford to spend adequate time to ensure an effective start up? Can they provide sufficient ongoing oversight? If not, priorities must be seriously weighed.

Suitability or unsuitability of a IGP for the RC/RC

The Azerbaijan Red Crescent has started several IGPs during the last three years including bakeries, carpentry work-shops and mini mills. At one point the idea of starting a pig farm was proposed by different branches. Even though ham and bacon are consumed in Azerbaijan and also appears to be a lucrative business, the idea was turned down. The National Society considered pig farms to be inappropriate for a Muslim national society. It would be disrespectful of the local culture and could damage the image of the National Society.

Selecting the activity

Defining the business idea

- What product do you intend to sell?
- To what customers will you sell?
- Why will the customers buy your product?
- How, where and when will you sell it?

Analyzing the business environment

- Who are the clients?
- Who are the competitors?
- Who are the suppliers of input material for your business?
- Are there any other actors who you should consider?
- Are there any particular market segments?
- Where do the buyers make their purchases?
- How do the buyers and sellers communicate in this market?

Analyzing market demand

- What market or market segments are you targeting?
- What products do the customers buy in this market/segment?
- How do the clients want the products to look (features, quality etc.)?
- What prices are the clients prepared to pay for a specific product?
- What quantities can you sell of the product, to a certain market/segment, at a certain price?

SWOT

- Compared to your competitors, what strengths do you have for this IGP?
- Compared to your competitors, what weaknesses do you have for this IGP?
- What opportunities exist in the business environment, which will increase the chances of success?
- What threats exist in the business environment against the success of your business idea?

Suitability for a National Society

- Are there any services that you provide today that you could start charging for (without excluding the target population)?
- Are there any activities that are related to your mission and ongoing activities?
- Is the business idea compatible with the overall humanitarian principles of the RC/RC Movement?
- Will the IGP affect the local image of the National Society? How?
- Is the IGP compatible with policies and plans at RC/RC national or branch level?
- To run the IGP, what resources will have to be diverted from other regular RC/RC activities?

Calculating Cost, Income and Profit

Having selected an activity you must also make sure that it gives a profit, i.e. that it is “financially viable”. This is done by calculating the expected income and cost.

Please recall the difference between the financial perspective and the wider socioeconomic perspective discussed in section 2.1.2. Since the main objective of the IGP is to generate a financial profit, this chapter deals primarily with the financial aspects. The last section describes how to consider other values as well.

1. Estimating Income

Simply put, income is the money earned by the business from sales. It can be calculated with the following formula:

$$\text{(Item price)} \times \text{(number of items sold)} = \text{income}$$

To estimate income you should forecast a) the amount to be sold and b) the price that you can sell the product for. Both depend on the demand for your product.

One method to find data is to look at the competitors selling the same product. You may ask questions like: how much are the others selling per day and at what prices? Is it probable that I will sell more or less, considering the location of my business, the quality of my product, etc.?

Remember that there often is a tradeoff between price and quantity. In many cases, the lower the price, the larger quantities you may sell. However, it also means smaller margins on each item. How to price your product deserves careful consideration.

Be realistic when estimating income! If you are overoptimistic, you risk entering a business that is not profitable.

Estimating income

A branch of a National Red Crescent Society in a Middle Eastern country had identified a business idea: to start a small Red Crescent Shop in the town's hospital. After discussions with the hospital directors, the branch was promised a small outlet in the main hospital building. The branch planned to start small, offering only newspapers, juices and biscuits. Using information from the hospital about the number of visitors per month, they estimated the possible monthly incomes as follows (the currency in the country is called Kakis):

1. Monthly income from newspapers

$(30 \text{ newspapers per day}) \times (20 \text{ days}) \times (5 \text{ Kakis per paper}) = \text{Kakis } 3000$

2. Monthly income from juice

$(25 \text{ juice cans per day}) \times (20 \text{ days}) \times (10 \text{ Kakis per juice can}) = \text{Kakis } 5000$

3. Monthly income from biscuits

$(20 \text{ packages of biscuits}) \times (20 \text{ days}) \times (20 \text{ Kakis per package}) = \text{Kakis } 8000$

4. Monthly and annual income

Thus the total monthly income is estimated as:

Sales of newspapers:	3000
Sales of juice:	5000
Sales of biscuits:	8000
TOTAL INCOME	16,000

Assuming that the shop will be open 11 months of the year, the total annual income is:

$(11 \text{ months}) \times (\text{Kakis } 16,000) = \text{Kakis } 176,000.$

2. Calculating Costs

The next step is the calculation of cost, i.e. the value of the resources consumed in order to operate the business.

Direct and Indirect Costs

Note the difference between direct and indirect costs. *Direct costs* are all costs that are directly related to the product sold by you, for example the cost of material and of labor required to produce a specific product.

Indirect costs are those not directly related to any products, for example, rent, electricity and water, administration costs and insurance. Indirect costs are sometimes called overhead or expenses. Even though indirect costs are not directly related to a product or service sold, they are a cost of the IGP since they are used and consumed in the operation of this activity. A common type of indirect cost in the National Society is when a resource is shared between the IGP and other activities. An example of this is the salary of an accountant who works both with the bookkeeping of the IGP and other NS activities.

All too often, the indirect costs are forgotten or simply neglected. However, disregarding indirect costs for administration and rent, for example, means that you may be running with losses without even knowing it!

Estimating direct and indirect costs

As previously mentioned, a Middle Eastern RC branch was planning to sell newspapers, juice and biscuits at a hospital. When calculating costs, they started by looking at the direct costs and then went on to look at indirect costs.

Estimating direct costs: To identify the yearly direct costs they asked themselves: What are the costs directly related to the products we sell i.e. the newspapers, juice cans and biscuit packages? They concluded that this was what they had to pay to buy this merchandise themselves. The branch had previously made an estimation of the quantities they could sell and from a supplier they found out the purchasing prices for the three items. They made the following calculations:

Newspapers: $(30 \text{ papers/day}) \times (20 \text{ days/month}) \times (11 \text{ months}) = 6\,600 \text{ papers}$
 $(6\,600 \text{ papers}) \times (2 \text{ Kakis/paper}) = \text{Kakis } 13\,200$

Juice cans: $(25 \text{ cans/day}) \times (20 \text{ days/month}) \times (11 \text{ months}) = 5\,500 \text{ cans}$
 $(5\,500 \text{ cans}) \times (5 \text{ Kakis/can}) = \text{Kakis } 27\,500$

Biscuits: $(20 \text{ packages/day}) \times (20 \text{ days/month}) \times (11 \text{ months}) = 4\,400 \text{ packages}$
 $(4\,400 \text{ packages}) \times (10 \text{ Kakis per package}) = \text{Kakis } 44\,000$

The *annual direct costs* would thus be: $13\,200 + 27\,500 + 44\,000 = \text{Kakis } 84\,700$

Estimating indirect costs: In order to determine the indirect costs, the branch asked what other costs, apart from the direct cost of merchandise, the business would give rise to. They concluded there were four types of indirect costs.

First, there was the rent of the store (10000 Kakis/year) and the shop attendant's salary (33000 Kakis/year.)

It was also noted that one of the branch directors would have to be quite involved in the IGP. The director earned 60000 Kakis and would have to dedicate about 20 % of his time to the IGP. To see what cost this implied for the IGP, his salary was multiplied by the share of the time he would devote to the project: $60\,000 \text{ Kakis} \times 0,20 = 12\,000$.

The IGP would also require transportation and it was decided to use the old RC/RC vehicle. The yearly cost to operate the vehicle was estimated to be 20000 Kakis and it was estimated that the RC/RC vehicle would have to be used about half of the day for the new activity. The transportation cost was thus $20\,000 \times 0,5 = 10\,000 \text{ Kakis}$. Thus the *yearly indirect costs* were:

Rent of the shop	10000 Kakis
Shop attendant's yearly salary	33000 Kakis
Participation of the branch director	12000 Kakis
Transportation	10000 Kakis
Total	65000 Kakis

Cost and expenditure

There is an important difference between *cost* and *expenditure*. Expenditure refers to the *financial transaction* when you buy an input while cost refers to when you actually *consume an input* in your IGP. For example, when you buy a stock of raw material for production, you have an expenditure. Now you possess this stock but could probably return it and get at least some of your money back. You have still not consumed anything and therefore not had any cost. However, as you start producing, you will successively consume the stock. This implies a cost!

Depreciation

Depreciation is done to recognize this difference between expenditure and cost. If you buy, for example, a machine or a house, you probably expect to use it for many years and you should therefore divide the cost over several years. You had an expenditure when you made the purchase, but the cost will come when the asset wears down. This cost, the continuous loss of value of an equipment, is called depreciation. The following formula is used to calculate depreciation:

Cost of buying the equipment / number of years it will last = yearly depreciation

In general depreciation is applied only to expensive assets which last for more than a year. Examples are buildings, vehicles, machinery and office equipment. Depreciation is too often overlooked. It should always be included!

Note: If you set money aside for depreciation, you can afford to replace the old equipment the day it is completely worn out!

Calculating depreciation

The Middle Eastern Red Crescent Branch which wanted to start a shop in the town's hospital also realized that they had to calculate depreciation. The equipment required for the shop was a small refrigerator for juice cans and furniture. A local manufacturer in the town was willing to donate a refrigerator and the furniture could be bought second hand. The branch calculated the annual depreciation for the equipment in the following way: (The currency is called Kakis)

1. Refrigerator:

Cost of new refrigerator / number of years it would last
30,000 Kakis / 5 years = Kakis 6000 per year

2. Furniture:

Cost of furniture / number of years it would last
5000 Kakis / 5 years = Kakis 1000 per year

3. Annual depreciation:

Thus the cost of yearly depreciation for equipment was estimated as:
(refrigerator) 6000 Kakis + (furniture) Kakis 1000 = Kakis 7000 per year

Donations

Many Red Cross / Red Crescent Societies and branches receive donations such as copying machines and vehicles, that will be used in the IGP. Voluntary work can also be considered as donations. There is no expenditure to receive these resources, as they are given free. However, it is none-theless a cost when the resources are *consumed* by the IGP. If such costs are not included in the cost calculation for the IGP you will underestimate your actual costs! You may also enter into a situation of dependency. The day the assistance is not there the IGP will be negatively affected.

When receiving something for free, you should therefore assign it a financial value. You may, for example, use the value that you would have had to pay if you had bought the goods. When later *using* the resources in the IGP you should calculate it as a cost.

Do not forget to calculate depreciation on equipment that has been donated!

Note: Sometimes an IGP is used to provide products (e.g. bread from the bakery or clothes from the clothing store) for free to people in need. In order to not lose the financial control of the IGP, it is advisable that the social program be charged by the IGP for these products.

Total Cost

Total cost is calculated according to the following formula:

$$\text{Direct cost} + \text{indirect cost} + \text{depreciation} = \text{total cost}$$

Calculating total cost

After having identified the direct and indirect costs as well as the depreciation for the shop in the town's hospital, the RC branch in the Middle Eastern country could proceed to calculate the total annual costs. This was done by adding three different types of cost they had identified:

Direct costs	84700
+ Indirect costs	65000
+ Depreciation	7000
Total costs	156,700

3. Profit

Having estimated the total incomes and total costs, you can estimate the profit of the IGP. This is done by subtracting the total costs from the total income. The formula is:

$$\text{Total income} - \text{direct cost} - \text{indirect cost} - \text{depreciation} = \text{profit}$$

In other words, profit is not cash left over. And, it is not sufficient that an activity just generates income. **The income must exceed total costs, including indirect costs and depreciation. In order to maximize the profit in any business venture, the costs must be closely monitored and kept as low as possible.** It is not acceptable for an income generating project to have all its incomes used up in paying for the staff or cost of operation. Here it is essential for management to establish reporting systems that will monitor income, costs and profits regularly and act decisively to correct as needed. There are all too many "LGPs" - Loss Generating Projects!

Remember that your business will be evolving. Therefore you should try to estimate profits both in a short (1 year) and in a long term (3 years and more) perspective. Often a business is particularly vulnerable the first year. Therefore it may be wise to develop a monthly plan showing the income and costs.

The monthly plan allows you to consider seasonal variations. The plan also serves as a budget for the IGP and thus is like a management tool. Compare your records with plans every month and take action if anything goes wrong. An example of a monthly income and cost plan is shown below:

Month	Jan	Feb.	Mar	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Income	1'000.00	900.00	1'500.00	1'800.00	1'500.00	3'000.00	3'000.00	3'000.00	2'000.00	1'500.00	2'000.00	4'000.00	25'200.00
Direct costs	500.00	450.00	750.00	900.00	750.00	1'500.00	1'500.00	1'500.00	1'000.00	750.00	1,000.00	2'000.00	13'600.00
Indirect cost	600.00	400.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	6'000.00
Depreciation	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	1'200.00
Net Profit	-200.00	-50.00	150.00	300.00	150.00	900.00	900.00	900.00	400.00	150.00	400.00	1'400.00	4'400.00

Financial viability

Given that the IGP generates a profit, you also have reason to ask: how big should the profit be for the income generating project to be worthwhile?

First of all, to enter an IGP always implies a risk. If the expected profit is small, you should seriously consider whether it is worth taking this risk!

Secondly, you will have to invest both time and money in the project. Analyze whether this is the best way to use this time and money. Could you do something even more important with your time? Are there other activities which could possibly give you a higher profit? As a rule of thumb, the profit must be *at least* as big as if you had put your money in a bank account and earned interest.

Other values than financial

An IGP is by definition an activity aiming at generating financial surplus, and it is against this criteria it should be assessed. But as mentioned initially, there are in fact other values, which cannot be expressed in financial terms. Benefits from a IGP may include improved image of the National

Society, provision of a valuable service to the community and enhanced knowledge of National Society staff. Contrary, if the IGP gives the National Society a bad image, if there are adverse effects in the community, it is in one sense a cost for the National Society.

These values are important. However, since they are different from financial values, they should not be mixed together. Rather, you may assess the IGP in three steps:

1. Making a financial analysis, considering the financial profits.
2. Identifying all other values, positive as well as negative, that the IGP brings and make a qualitative assessment of their importance.
3. Making an overall assessment of the IGP, considering both 1 + 2.

If the IGP gives both financial and other benefits (values) it is an advantage. However, if you fore-see a financial loss, you can not justify it by these other values. If there is a financial loss, the project has ceased to be an IGP and should be considered a social activity for which funding is required.

Positive and negative values of an IGP apart from the financial

Example 1: The National Headquarters together with selected branches of the Red Crescent Society of Tajikistan run an animal husbandry and agriculture IGP. The IGP is located in two regions of which one is the Gorno Badakshan Autonomous Oblast (GBAO). The products sold are: milk products, wool, carpets and socks. The milk products are sold in the National Society office in GBAO. Besides the financial benefits of the IGP it has been noted that the sale of milk products has resulted in increased awareness of the National Society. The customers visit and become aware of the National Society office. A negative side of the IGP has also been detected. Some branches have become so involved in the IGP that they do not have time for traditional National Society activities. Although this negative aspect is not reflected in a cost for the IGP it is a drawback for the National Society itself.

Example 2: A branch of the Latvian RC/RC is selling second hand clothes, which are largely donated from Sweden. The financial profit has been substantial, but the branch also points at other important things. Many people really need reasonably priced clothes and the shop thus meets a social need. The shop has made the National Society visible in the community and many of the people buying clothes actually become members. It has been a challenge for the branch to run the shop and the National Society has learned a lot. These things have perhaps been just as important as the money.

Calculating Cost, Income and Profit

Estimating income

- What quantities do you expect to sell?
- What prices can you sell the products for?
- What will be your total income?

Estimating costs

- Which are the direct costs and how big are they?
- Which are your indirect costs and how big are they?
- How big is the depreciation of equipment, vehicles etc.?
- Have you included the cost of using donated input?
- What will be your total costs?

Financial profit

- How big is the difference between income and cost, i.e. the profit or the loss?
- Is the profit big enough to justify the risk?
- Are there other activities which would generate a greater profit?

Other values

- Are there benefits from the IGP which cannot be expressed in financial terms?
- What are they and how important are they?
- Are there costs from the IGP that cannot be expressed in financial terms?
- What are they and how important are they?

Financing

Let's assume that your business idea is financially viable, and you decide to go ahead with it. To start the IGP you will need a certain amount of money to cover initial investment and the daily operations of the business, the so called working capital. How much financing will you require and where should you find it?

1. Capital Investment

When you invest, you purchase something with the expectation of obtaining future incomes. Your investment may be machinery, a cow or a shop. Training can also be seen as an investment, as long as it can be expected to give a future return. You may have to invest in some business premises including office space and furniture. The size of the investment needed depends on the type of activity. Production often requires substantial investment in, for example, machinery and vehicles, while service activities may require less.

Warning: If the IGP fails you risk losing the investment. Therefore it is often better to limit investments in the beginning. You can always make further investments later on, when you see that things are going well.

2. Working Capital

You will always have some costs before there is income. You must, for example, produce or purchase stock before you can sell it. Probably you will also have to spend some money on promotion, wages, rent and other things before the income starts coming in. The money required to pay for these things, while waiting for the income, is called *working capital*.

The amount of working capital needed depends on two things: the size of expenses and the time required before the business sales can cover these expenses. Thus the formula to calculate working capital is:

$$\text{Monthly expenses} \times \text{number of months before sales will cover costs} \\ = \text{working capital requirements}$$

Without sufficient working capital there is a risk of running out of cash and thereby having to close the IGP.

Calculation of investment capital needs and working capital needs

A National Red Cross Society in a Central American country planned to start a guest house for business and pleasure travelers to the capital. In section 3.4.2., they undertook an analysis of strengths, weaknesses, opportunities and threats of the business idea. After concluding that the business could become profitable, they calculated the financing needs of the business, i.e. how much money would be required to start the guest house.

They started by calculating the startup investment. The first step was to write down all the furniture and equipment they needed including the prices of the items: (the local currency is called Quetzals after the quetzal bird).

ITEM	COST IN QUETZALS
10 double beds	20000
10 small tables	5000
40 chairs	000
20 lamps	4000
table cloths, sheets, pillows	5000
5 dining tables	10000
decoration and curtains	10000
10 telephones	1000
1 fax	3000
1 computer & printer	8000
TOTAL INVESTMENT	55000

Thereafter they estimated the needs for working capital, i.e. the cash needed to start and run the business. The formula used was: monthly expenses before sales will cover costs x number of months.

They estimated that it would take five months before the sales would cover the costs. The monthly income and expenditures were the following:

ITEM	Monthly in Quetzals
Income hotel nights:	30000
Expenditure;	
Salary for receptionist	1500
Salary for cleaner	800
Salary for cook and waiter	1500
Paper and office material	1000
Food for the breakfast and drinks	9000
Utilities	500
Telephone and fax	1000
Construction and repairs	20000
Net flow per month:	- 5300

The total need of working capital was: 5 months x Q 5300 = Q 26500. Hence the capital needed to start the guest house business was:

investment	55000
+ working capital	26500
Total	81500

3. Cash flow

To make sure that the IGP does not run out of cash, you should also elaborate a so called cash flow plan. This plan shows how much cash is expected to come in and go out of the business each month. It shows the cash balance at the beginning and end of every month. The cash flow plan is a complement to the calculation of capital needed for investment and working capital. First a cash flow plan shows when the money is needed and second, if the estimates of working capital and investment are used in the analysis, it helps to double check previous calculations.

It is particularly important to watch the cash-flow at the initial stages of the IGP. It is not uncommon for a business to run with a loss the first few months. The working capital is used to sustain the business. However, when the working capital has been consumed, you must either find additional finance or stop the IGP.

Cash flow analysis

After having calculated the need for investment and for working capital, the RC/RC in the Central American country took a loan of 81500 in the bank with the house as collateral.

To ensure that they would not run out of cash, they did a cash flow plan which estimates the monthly income and expenditure and shows the need for financing in a time sequence. The RC/RC did a cash flow for the first twelve months and included the loan for start up costs of Quetzals 81500 which was mentioned above.

Month	Jan	Feb.	Mar	Apr.	May	June
Cash, start of month	81'500.00	21'200.00	15'900.00	10'600.00	5'300.00	0.00
Cash in	30'000.00	30'000.00	30'000.00	30'000.00	30'000.00	45'000.00
Cash out	90'300.00	35'300.00	35'300.00	35'300.00	35'300.00	30'000.00
Cash at the end of month	21'200.00	15'900.00	10'600.00	5'300.00	0.00	15'000.00

Month	July	Aug.	Sept.	Oct.	Nov.	Dec
Cash, start of month	15'000.00	36'000.00	56'000.00	76'000.00	96'000.00	102'000.00
Cash in	46'000.00	40'000.00	40'000.00	40'000.00	30'000.00	30'000.00
Cash out	25'000.00	20'000.00	20'000.00	20'000.00	24'000.00	24'000.00
Cash at the end of month	36'000.00	56'000.00	76'000.00	96'000.00	102'000.00	108'000.00

From the cash flow analysis above the RC/RC concluded that the estimated investment and working capital is sufficient but that after 5 months of operations there will be no cash at the start of the month. In order to have a buffer it would be better to have a bit more than the Q 26,500 calculated.

4. Where to go for financing

Having estimated how much finance you need, the next question is: from where should you get it? There are four major options for arranging finance. You may of course also choose a combination of these.

■ Own funds

One alternative is to use the National Society's own funds. RC/RC Societies and branches all have different financial situations. Even if the National Society has its own capital to invest, there are usually other important things requiring finance. A decision must then be made whether to invest the money in an IGP, in exchange of future profits, or to use them for other (e.g. social) purposes.

■ Loans

For investments with good prospects you may borrow money from banks or other institutions. The advantage of this is that you do not have to use your own money. On the other hand, interest has to be paid and, of course, the loan itself. Probably some kind of security or collateral will be required for the loan.

■ Grants

By showing that you are starting an activity that will generate income for the RC/RC you are in a position to ask for grants. In other words, the IGP provides an opportunity for fundraising! Grants can be secured from corporations, foundations and governments. Businesses, for example, may be interested in sponsoring an IGP if it could provide marketing visibility. Example: a Belize RC snack shop building was donated by Coca Cola with a Coke sign outside and the building painted in Coke and Red Cross colors - red and white.

The world wide network of the International Federation also offers opportunities. One National Society may assist another and the national headquarters can assist branches, either in the form of grants or credits.

■ Financing from operations

If you start small, you may limit your original investments to a minimum. The profit made can be reinvested in the IGP. This is called financing from operations.

Financing an IGP

Example 1: The Belize Red Cross Society used various sources of finance, including both loans and donations, to start up its snack shop in Belize City. The land for the snack shop was provided as a grant from the Nurses Association (in Belize). The building and some equipment were donated by private companies, i.e. the Coca Cola Company and Cisco Construction. A loan from the National Society's own funds provided the working capital necessary for startup.

Warning: If you start the business without having assured finance, there is a risk that the IGP will run out of cash and fail!

Financing

Investment

- What investments will you have to make in business premises?
- What investments will you have to make in equipment or machinery?

Working capital

- How big are the monthly expenses?
- How many months, on average, will it take before sales cover expenses?
- How big are working capital requirements?

Cash flow

- Have you made a cash flow plan?
- Is it positive?

Arranging finance

- Where will you find the finance required for startup investment and working capital?
- Do you have your own capital to invest?
- Can you obtain a loan?
- Can you obtain grants?
- Can you reinvest profits from the IGP?
- Can you draw on the RC/RC network?

Human resources, organization and management

An IGP also requires human resources, a well functioning organization and good management.

1. Human Resources

For any IGP you will need people, with certain skills and capacities.

Requirements and availability

To determine an IGP's need for human resources you first have to ask: what functions must be fulfilled to operate the business? Typical functions include:

- Purchasing
- Production
- Marketing and sales
- Accounting and finance
- Management

You must then ask:

- how many people do we need to perform these functions?
- what knowledge and skills are required to perform these functions?

Since each IGP is different, it is difficult to generalize about what knowledge and skills are required. However, most likely a IGP will need:

- technical skills, to produce or at least to assess the quality of products sold,
- knowledge of the line of business, the business environment and its characteristics,
- general business management skills, including marketing, finance, accounting and management.

To be successful, it also requires a certain “entrepreneurial spirit”, including commitment, motivation, realism, ability to make decisions and a lot of energy.

Having defined the human resource needs, you must ask: do we have these resources? Note that the question should be asked both from a quantitative and qualitative point of view. The questions are:

- Do you have people available for these tasks (i.e. can they be released from their other duties)?
- Do the people have the knowledge, skills and experience required to perform the tasks?

If there is a difference between human resource requirements and the human resources available, the organization must train the existing staff, recruit new staff or both. You can also hire certain expertise externally (See chapter 8 on “Where to go for help”). However, if there is a big difference between

the requirements and what you have, you will face substantial investments in human resource development. **In these situations it is probably wiser to avoid this business and seek one where the National Society has better prospects of success.**

Note: A way to reduce risk is to select an activity that lies close to what the organization is already doing and possesses the human resources for.

Salaried staff and volunteer workers

Many National Societies are fortunate to have people working on a voluntary basis. Apart from reducing expenditures it adds an extra dimension to the activity. However, experience shows that it is not always without complications. If you are thinking of using volunteers in the IGP consider the following:

- **Skills:** Sometimes the volunteer workers do not have the appropriate skills for the job. They can contribute but there will often be limitations in skills and capacity.
- **Reliability:** The volunteers are performing a job voluntarily. Nonetheless, the IGP needs people it can count on. This means that if a person states that he/she will work for the project, it is not just a voluntary act: It is a commitment! Will the volunteers fulfill their commitments? Are they properly motivated and, most importantly, are they appropriately recognized?
- **Supervision:** The volunteer workers are likely to be working part time, perhaps in different constellations, and the turnover of people will be greater than with fixed staff. This calls for additional instruction and supervision.

Experience shows that voluntary work can be a valuable additional input. However, relying too much on volunteers may endanger the stability of the IGP.

2. Establishing an Appropriate Organization

The human resources should be organized in an effective and efficient way. The organization will look different from one IGP to another, depending both on the type of activity and how the local National Society is organized. Below are a few examples.

Organization of IGP

Example 1: The National Headquarters in the Bahamas Red Cross Society produces and sells Christmas cards. The cards depict local or native scenes in the Bahamas. The IGP is easily organized and is only undertaken once a year. It is managed as one activity within the National Society.

Example 2: Surinam RC operates the country's blood bank. It has made the blood bank a separate legal entity in order to reduce the exposure of the NS to any potential legal action against the blood bank.

One important question is where in the National Society structure the IGP should be located. The fact that the IGP will be a profit making business entity, while the RC/RC itself is a nonprofit humanitarian organization calls for some kind of division. However, most likely, the IGP will draw on some of the same people and facilities as the RC/RC ordinary activities. A solution must be sought that suits the specific situation, considering not the least, the national legislation. The following are a few options:

- **Integrated IGP:** The IGP is run as part of the regular organization as just another project (however, with a separate project account!)
- **Semi-integrated IGP:** The RC/RC assigns a board and gives the IGP a special status within the organization.

- Separated IGP: A separate legal entity, owned by RC/RC is set up and is run independently on business criteria.

Note: Whatever form of organization chosen, the IGP must have a separate project account reflecting its incomes and costs. If the accounting for the IGP is mixed with accounting for ordinary activities, you will not know if the IGP makes a profit or a loss!

3. Management

A successful IGP requires good management. Simply speaking management means setting objectives and making sure that these objectives are fulfilled. It includes planning and follow-up so that action can be taken in case of unexpected development. It also includes encouragement and supervision of staff. The following four areas should be considered:

- **Market**, including monitoring and forecasting of market trends, prices, action taken by other actors on the market, as well as adaptation of the product, price, promotion and distribution accordingly.
- **Production**, including planning and monitoring the production process as well as procurement.
- **Finance**, including forecasting and monitoring of incomes, costs and cash-flow. It also includes business accounting according to the local standards.
- **Human resource planning**, includes forecasting of the tasks to be performed, recruitment of the human resources needed to perform these tasks, leadership and long term human resource development.

Human Resources, organization and management

Human Resources and organization

- What are the different functions to be fulfilled to operate the IGP?
- What number of staff is required to perform the different functions?
- What are the knowledge, skills and experience needed to fulfill these functions?
- Do you possess the necessary human resources?
- Can you spare these people from their present work tasks?
- Is there a possibility to train your existing staff to meet the skills requirements?
- Is there a possibility to employ staff with the necessary skills?
- How will the IGP relate to the overall organization of the National Society or branch?
- Has the IGP separate bookkeeping in which the profit / loss of the IGP is shown?

Volunteers

- Do the volunteers possess the skills required?
- Do the volunteers have full commitment and the right behavior?
- Do you have the necessary capacity to supervise volunteers?

Management

- Have you set clear, realistic and measurable objectives for the IGP?
- Do you have capacity to manage the business and its staff?
- Do you have systems to follow up if your objectives are not met?

Legal aspects

Income generating activities are subject to a number of government laws and regulations. Before embarking on an activity, a national Society must understand the laws and regulations and take steps to ensure that it meets the requirements. If the laws are not adhered to, it does not only jeopardize the IGP, it can seriously damage the image of the Red Cross and Red Crescent Movement.

The Federation publication “Fiscal Concessions: What Can Your Government Do for Your National Society?” may be useful in suggesting ways your government can assist in some aspects of your IGP start up process.

Laws and regulations differ from country to country. You must therefore check the situation in your case. The following are some things to consider:

1. Legal form of business

Before starting you should carefully consider, by consulting a qualified attorney, what legal form the business should have. You may choose a voluntary organization status or it may be to your advantage to establish a separate legal entity. When deciding on the legal form consider the following:

Legal possibilities: There is always a law for the activities of voluntary organizations. This law, or other regulation, may specify whether a voluntary organization is permitted to engage in business related activities.

Public image: In order to avoid misunderstandings, a clear division between humanitarian and income generating activities is advisable. The danger of the public perceiving that a large IGP is replacing the community/humanitarian mission of the NS can not be ignored. Take every opportunity to state (in signs, in promotions, on the product etc.) that the IGP is to “support the humanitarian activities of the RC”. Use the IGP to highlight the work of the RC and invite donations. If you have a snack shop, display RC posters and brochures. Place a donation receptacle on the counter.

Taxation: If you run the IGP as part of your regular structure, this may entitle you to tax exemptions and reduce the bureaucracy. However, there is also the risk that the authorities start questioning whether your organization actually is nonprofit. If so, you should make a legal division between the nonprofit and the for-profit operations.

Capital requirements and registration costs: The legal requirements as to startup capital and the costs for registration will vary depending on the legal form used for the IGP.

Financial risk: Some types of business carry the full risk for financial losses. However, by creating a limited liability company you may reduce the financial risk.

Partners: The choice of legal status can affect what partners you can line up with.

2. Taxes

Depending on the legal form of the IGP it may be subject to different taxes. These include, for example:

- sales tax,
- tax on profits,
- employers tax,
- import duties.

It will be important to understand, consulting with an attorney, the NSs current status with respect to tax liability on business income. It may be possible to negotiate with the government, if necessary, for a special exemption based on the NS role as auxiliary to the government and if profits are used for social benefit.

However, you must never base your financial projection on such tax exemptions. First of all, there is always a risk that the taxes have to be paid in the future. Secondly, if you compete with private companies which pay taxes you may actually be making money, not on a viable business idea, but at their and the government's expense.

It is a sign of strength if your IGP can pay taxes as any other business, providing you can still operate at a profit.

Legal aspects of IGPs

Branches of the Zimbabwe Red Cross Society operate kiosks at hospital premises. In 1997 there were a total of 32 kiosks around the country selling basic items such as foodstuffs, drinks, newspapers and toiletries. According to Zimbabwean law the IGP has to comply with legal regulations and needs certain licenses. A business license is required and the regulations of the Health Inspector, the Local Councils and the Consumer Council must be adhered to.

3. Accounting and auditing

Each country has different requirements for accounting and auditing. The requirements are set by national laws and often vary between different legal forms of businesses. Investigate with your local authorities.

4. Employment regulations

If you do not have experience employing people and your IGP involves hiring paid staff, you need to be aware of such employment regulations as:

- wage levels,
- social benefits,
- working hours,
- holidays,
- sick leave.

Inquire with the appropriate authorities on this.

5. Licenses and permits

Depending on what business you are entering, there may be different licenses or permits required. A restaurant may, for example, require certain permits related to hygiene. Also health services are often subject to some kind of authorization. Check with the relevant authorities.

Note: Looking into legal matters is often complicated and time consuming. It may be of great benefit if the National Society headquarters can assist branches running IGPs with information on laws and regulations.

Legal aspects

- What legal form should the IGP have?
- What taxes will the IGP be subject to?
- What accounting and auditing rules do you have to adhere to?
- What employment regulations do you have to adhere to?
- What licenses and permits does the IGP need?
- Are there any other laws and regulations to consider?

Where to go for help

The purpose of this publication is to give general guidance. Having read this, you may now have even more questions than before. Other questions will arise as you start planning the IGP. Many resources exist all around you and you will be much more competitive if you seek professional assistance in the critical planning stages. Consider contacting the following for:

Market information:

- clients purchasing the product that you will sell,
- companies currently selling this product,
- people who have worked in this line of business previously,
- chambers of commerce, trade federations,

Example 1: The Headquarters together with selected branches of the Tajikistan RC Society run an animal husbandry and agriculture IGP. The IGP is located in two regions the Gorno Badakshan Autonomous Oblast (GBO) and West Tajikistan. The items sold are: milk products, wool, carpets and socks. The Red Crescent Society contacted the NGO Mercy Corps International which helped them with information on costs of goods in different regions in the country. The information helped them to decide what to charge for products in different branches.

- organizations / companies specializing in market research.

Business Competence:

- people with business experience, even from other types of business than yours,
- local schools and training institutions,
- NGOs and UN agencies promoting small enterprise development, such as ILO, UNDP, World Bank, EU, GTZ, and CARE,
- accounting firms, lawyers or business consultants.

Financing:

- banks,
- NGOs providing small scale credits,
- government institutions promoting small businesses,

Legal aspects:

- lawyers,
- national or local government authorities,
- employers organizations.

Also, remember to make full use of the network of the International Federation of Red Cross and Red Crescent Societies! There is much that the National Societies and branches can learn from each other.

Annex I

Checklist for Starting an IGP

A Starting Point

- What is the main objective of the project?
- Are there other, additional, objectives?
- How will you use the profit?
- Do you have a national development plan?
- Do you have an overall Resource Development Plan?
- How does the IGP fit into the this plan?
- Is the IGP in accordance with the basic principles and objectives of the National Society?
- Will the IGP affect the image of the National Society?
- How will the IGP be coordinated within the branch and national level?
- How will profit/loss be distributed/covered?

Selecting the activity

Defining the business idea

- What product do you intend to sell?
- To what customers will you sell?
- Why will the customers buy your product?
- How, where and when will you sell it?

Analyzing the business environment

- Who are the clients?
- Who are the competitors?
- Who are the suppliers of input material for your business?
- Are there any other interested parties you should consider?
- Are there any particular market segments?
- Where do the buyers make their purchases?
- How do the buyers and sellers communicate in this market?

Analyzing market demand

- What market or market segments are you targeting?
- What products do the customers buy in this market/segment?
- How do the clients want the products to look (features, quality etc.)?
- What prices are the clients prepared to pay for a specific product?
- What quantities can you sell of the product, to a certain market/segment, at a certain price?

SWOT

- Compared to your competitors, what **strengths** do you have for the IGP?
- Compared to your competitors, what **weaknesses** do you have for the IGP?
- What **opportunities** exist in the business environment, that will increase the chances of success?
- What **threats** exist in the business environment that may affect the success of your business idea?

Suitability for the National Society

- Are there any services that you provide today that you could start charging for (without excluding the target population)?
- Are there any activities that are related to your mission and ongoing activities?
- Is the business idea compatible with the overall humanitarian principles of the Movement?
- Will the IGP affect the local image of the National Society? How?
- Is the IGP compatible with policies and plans at national or branch level?
- To run the IGP, what resources will have to be diverted from other regular activities?

Cost, Income and Profit

Estimating income

- What quantities do you expect to sell?
- What prices can you sell the products for?
- What will be your total income?

Estimating costs

- What are the direct costs and how big are they?
- What are your indirect costs and how big are they?
- How much is the depreciation of equipment, vehicles etc.?
- Have you included the cost of using donated input?
- What will be your total costs?

Financial profit

- How big is the difference between income and cost, i.e. the profit or the loss?
- Is the profit big enough to justify the risk?
- Are there other activities which would generate a greater profit?

Other values

- Are there benefits from the IGP which cannot be expressed in financial terms?
- Which and how important are they?
- Are there costs from the IGP that cannot be expressed in financial terms? Which and how important are they?

Financing

Investment

- What investments will you have to make in business premises?
- What investments will you have to make in equipment or machinery?

Working capital

- How big are the monthly expenses?
- How many months, on an average, will it take before sales cover the expenses?
- How big are working capital requirements?

Cash flow

- Have you made a cash flow plan?
- Is it positive?

Arranging finance

- Where will you find the finance required for startup investment and working capital?
- Do you have your own capital to invest?
- Can you obtain a loan?
- Can you obtain grants?
- Can you reinvest profits from the IGP?
- Can you draw on the RC/RC network?

Human Resources, organization and management

Human Resources and organization

- What are the different functions to be fulfilled to operate the IGP?
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- Do you possess the necessary human resources?
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Volunteers

- Do the volunteers possess the skills required?
- Do the volunteers have the full commitment and the right behavior?
- Do you have the necessary capacity to supervise volunteers?

Management

- Have you set clear, realistic and measurable objectives for the IGP?
- Do you have capacity to manage the business and its staff?
- Do you have systems to follow up if your objectives are not met?

Legal Aspects

- What legal form should the IGP have?
- What taxes will the IGP be subject to?
- What accounting and auditing rules do you have to adhere to?
- What employment regulations do you have to adhere to?
- What licenses and permits does the IGP need?
- Are there any other laws and regulations to consider?

Annex II

User's Guide for SWOT Analysis

What is SWOT?

SWOT is the acronym for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats. It is an easy-to-use tool that has been around for quite some years. Different organizations use it in different ways. A Red Cross/Crescent version was developed when we started to produce tools for institutional analysis of a National Society.

SWOT can be used, for example:

- As an initial analysis of the situation of a National Society: to identify the main strengths and weaknesses of the organization, as well as the most important outside opportunities and threats emanating from its working environment;
- To go into more depth concerning a specific activity or program. Example: refugee operation, first-aid training, health programs, youth, etc.
- To analyze a problem area in more detail. Example: lack of money
- For doing a quick analysis, or “reality check” before proceeding with a project or program - especially if the planned activity involves some risk and/or investment of time and money.

SWOT is very effective when applied to a specific objective or project. For example:

We will recruit and train 200 first aid volunteers in the next 18 months,

or

We will double our income from commercial activities in two years.

A SWOT analysis can reveal hidden obstacles to a planned project, especially when participants come from different departments or geographical areas in the same organization. In the same way, SWOT can identify positive elements that may not be readily evident. Used properly, SWOT can generate valuable data quickly and be an example of “strength in numbers”.

How to conduct a SWOT analysis: role of the facilitator

Two different ways of using this method are presented here. For both you need flip chart paper and markers. For the second you also need post-it stickers or cards (and some glue) in four different colors.

1. Example: Project analysis

Divide a flip chart page into four sections like this:

INTERNAL	EXTERNAL
Strengths	Opportunities
Weaknesses	Threats

Ask participants to brainstorm the following question: “What are the internal strengths and weaknesses within our organization that could affect the objectives we seek to achieve?” Ask group members to write their answers in large letters, using 1-3 words only, in the appropriate space. Then ask participants to do the same with the question: “What are the external opportunities and threats outside our organization that could affect the objectives we seek to achieve?” Record the answers as before.

Depending on the size of the group, the facilitator might divide participants into four work groups, or two groups or only one. If working in a single group, a minimum of three and maximum of eight is optimal. If the facilitator chooses to have two work groups - one could deal with strengths and weaknesses while another works on opportunities and threats. After an agreed upon time (20-30 minutes) each groups responses are explained to the other.

2. Example: Analysis of a National Society overall situation.

Use flip chart paper to produce the four-field image as shown on the previous page. You may want to use masking tape to put the papers on a wall, in order to create more space.

Divide the participants into groups. Distribute to each group some white paper for taking notes and five post-it stickers or cards of four different colors, as well as marking pens. Colors could be defined, for example, as follows:

strength = green
weakness = yellow

opportunity = blue
threat = red

Ask the participants to work in three phases:

- Individual work: Spend ten minutes in silence, identifying the main strengths and weaknesses of the organization, and the main opportunities and threats emanating from its working environment.
- Group work: In group discussion compare notes and identify five most important strengths of the organization. Write down with a few words one strength on each green card. Proceed to identify five most important weaknesses, and write each weakness down on a yellow card. Then do the same with the opportunities and the threats, using cards of indicated color.
- Place the post-it stickers or cards on the wall in the spaces allocated in the four-field flip chart. All groups will place their cards next to each other.

Variations can be created to this method, for example, by using the Characteristics of a Well-Functioning Society as the organizing principle for the work. In such case, the facilitator can ask one group to work on issues related to the Foundation (Mission, Legal Base, Constituency), another group to work on Capacity issues (Leadership, Human and Financial Resources, Organization) and another group on Performance issues (Activities, Relevance, Effectiveness).

To ensure a best possible result in an overall analysis it is important that the group is as representative as possible, including people from different levels and activities of the NS - headquarters and branches, staff and volunteers, men and women, young and old, newcomers and long-timers, and people from different program areas, such as relief, health, Fundraising etc. In order to allow for difficult internal issues to be included, the facilitator should be a “neutral” person: an outsider, or a delegate for example. It is sometimes important to ensure confidentiality of the source of information. This can be done by using (anonymous) cards instead of oral interventions, or by talking in the name of a group instead of individually.

What do the results mean? How do we apply them?

Using the outline below, the facilitator may guide the group in discussing and applying the results of a Project Analysis in several ways. Suggestions:

1. Conduct a “focused discussion”. What do these results tell us? What decisions should we take? Are we ready to proceed? If yes, what needs to be done first? If no, what needs to be done before we can proceed?

Or:

2. Ask the group (or groups) to pretend they are a consulting firm hired by the National Society to advise on the best course of action based on these SWOT results. After studying the results and referring to suggested strategies (below), develop a list of recommendations for leadership of the National Society and present and defend. Or, develop a list of 3-5 things the National Society should do and 3-5 things the National Society should not do. Present this to the National Society leadership.

How to interpret and apply SWOT?

<i>Internal:</i> What are the <i>strengths</i> and weaknesses within our organization that could affect the objectives we seek to achieve?	<i>External:</i> What are the <i>opportunities</i> and threats outside our organization that could affect the objectives we seek to achieve?
Strengths 1. 2. 3. 4.	Opportunities 1. 2. 3. 4.
Weaknesses 1. 2. 3. 4.	Threats 1. 2. 3. 4.

Possible Strategies:

If many **Strengths** and **Opportunities**, our strategy might include:

- Expanding
- Integrating
- Intensifying
- Acquiring

If many **Strengths** and **Threats**, our strategy might include:

- Diversifying
- Consolidating
- Providing contingencies

If many **Weaknesses** and **Opportunities**, our strategy might include:

- “Nicheing”
- Networking or linking
- Subcontracting
- Anchoring

If many **Weaknesses** and **Threats**, our strategy might include:

- Retrenching
- Merging
- Withdrawing

Used for an initial brainstorming concerning the overall situation of a National Society SWOT can produce large amounts of information, some of which can be contradictory. Not everything that comes out can be considered as “hard data”, as it may reflect lack of knowledge, or it may be affected by emotions or personal experiences. However, such data can be quite valuable for identifying further areas of attention.

If SWOT is used as a starting point for an institutional development program, the results can help set ID-objectives and to define a time-frame. SWOT can also be applied to complement the “snapshot analysis” done by using CAPI (Customized Assessment and Performance Indicators) as a planning tool.

Annex III

Code of ethics and professional conduct for Red Cross and Red Crescent fundraisers

Purpose of the code

As one of the world's largest humanitarian organizations, the Red Cross and Red Crescent Movement is proud of the high regard in which it is held by both the recipients of its services and its supporters.

This Code is intended to provide fundraisers of the Red Cross and Red Crescent Movement with principles and guidelines for raising money and other resources from all sources. In this way fundraisers for the Movement, no matter what specific job they are doing or where in the world they are located, can relate to the work of their colleagues. This consistency of approach to fundraising is expected to enhance the global nature of the Movement and its reputation with its supporters.

General references in the movement affecting fundraising

This is a list of references which, in one way or another, have to be taken into consideration when thinking of Fundraising within the Movement

- *Brochure the Fundamental Principles of the Red Cross and Red Crescent*
- *Regulations on the Use of the Emblem of the Red Cross or the Red Crescent Art. 23*
- *Code of Conduct for the International Red Cross and Red Crescent Movement and Non-Governmental Organizations (NGOs) in Disaster Relief*
- *The Donors' Bill of Rights*

Principles of fundraising in the movement

General

Fundraisers shall

- hold themselves accountable to both those they seek to assist and those from whom they accept resources,
- always ensure that messages and illustrations do not make use of human misery,
- fully comply with the Red Cross and Red Crescent principles, practices and regulations, and with all applicable national, regional and local laws and regulations,
- undertake procedures and practices that bring credit to the organization by following accepted principles of sound business management and accounting procedures,
- in all dealings with current and potential donors, institutions and other professionals, act with fairness, honesty, integrity and openness,
- strive to achieve and maintain a high degree of competence and shall advise current and potential donors only in areas in which they are professionally qualified. In areas outside of their knowledge and expertise other professionals should be included,
- when necessary, encourage current and potential donors to seek competent legal and tax advices,
- always remember to express thanks for donations and pledges made,
- strive to increase professional and personal skills for improved service to donors,

Personal

Fundraisers shall

- recognize that they are fully and completely responsible for public confidence and therefore shall act accordingly.
- not exploit any relationship established to gain their personal or financial interests,
- avoid all situations which could lead to a conflict between personal and business interests,
- put charitable mission above personal gain, accepting compensation by salary or set fee only,
- avoid activities that might damage the reputation of any donor, the organization, the profession as a whole or themselves,

Current and Potential Donors

Fundraisers shall

- provide adequate information about the mission of the Movement and how it intends to use the donations that are received,
- to the best of their ability, ensure that contributions are used in accordance with donors' intentions,
- respect the privacy of the donor and the details of the donation to the extent required by law, and will not sell or otherwise make available personal details of a donor without permission from that donor,
- deposit donations immediately and ensure that they are spent for the purposes for which they were raised within a reasonable time,
- give donors appropriate acknowledgment and recognition,
- shall give current and potential donors prompt and truthful answers to questions,
- provide a copy of the published financial statements on request,
- take donor complaints seriously, handle them promptly, and send responses swiftly.
- provide appropriate and accurate explanations about tax incentives and implications,
- respond to questions from current and potential donors in a prompt and accurate way,
- provide timely reports to donors on the way that funds have been spent,

- avoid aggressive conduct during fundraising,
- comply with a donors request to be excluded from any future mailing lists,
- ensure that there is a fair and proper balance between the interests of donors and the aims and objectives of the Red Cross and Red Crescent Societies.
- make it clear that the recipient is under no obligation to buy an incentive or return it.

Use of Funds

Fundraisers shall

- clearly and correctly communicate at all times the specific objective and cause of the fundraising campaign,
- apply the funds raised to the purpose for which they were raised and within a reasonable time frame.

Effectiveness

Fundraisers shall

- aim for levels of cost, which are generally acceptable within the profession and by the public. Due regard must be taken to the nature of the cause, the stage of penetration and the type of fundraising program used,
- be cost effective, thus striving for a proper balance between costs, income and quality,
- use discretion in predicting the results of campaigns, and shall do so only on the basis of careful analysis,
- commit to significant expenditures only after careful and professional analysis indicates valid investment and satisfying return on that investment,
- ensure that donations are employed economically, efficiently and under strict observation of their purpose,
- ensure security of money received from donors,
- not engage fundraisers in contracts that provide a contingent fee, commission, or percentage of funds raised.
- engage in income generation activities with third parties only after putting in place a contract or formal letter of agreement, in the context of a business plan, and ensuring that any profits for the third party are reasonable, controlled, and audited.
- ensure that fundraising expenditures are within the authority and control of the National Society.

Accounting & Transparency

Fundraisers shall

- ensure that the National Society has control of the process of accountability, handling of funds and fundraising statements to be made,
- produce accurate information to ensure accountability to donors,
- keep records in such a manner as will ensure that funds are properly accounted for and results are verifiable,
- ensure a recognized (national) accounting method is to be used,
- make annual accounts publicly available (openness),
- ensure that all information and reports are accurate and correctly reflect the mission and use of funds,
- accurately account for all income earned and all costs incurred by fundraising activities,
- keep records of projected costs and actual costs incurred - and the net proportion going to the purpose/cause.



RED CROSS RED CRESCENT

the *power* of **humanity**



The *International Federation of Red Cross and Red Crescent Societies* promotes the humanitarian activities of National Societies among vulnerable people.

By coordinating international disaster relief and encouraging development support it seeks to prevent and alleviate human suffering.

The Federation, the National Societies and the International Committee of the Red Cross together constitute the International Red Cross and Red Crescent Movement.