

Commercialization: An option for sustaining the nonprofit sector in developing countries

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Abstract: The importance of the nonprofit sector in enhancing sustainable development especially in developing countries where states and markets often fail is generally recognized in the literature on organizational behavior and development. The rapid growth observed in this sector has been accompanied by increasing volatility of charity and philanthropy, perverse global shocks and institutional arrangements. These factors threaten the financial sustainability of the nonprofit sector as well as its constant contribution to sustainable development especially in developing countries. This paper proposes an extension of the concept of nonprofit commercialization to developing countries, which until now has claimed significant importance only in the developed countries nonprofit literature. The key hypothesis developed in this paper is that commercialization of nonprofit organizations in developing countries can significantly reduce the risk of financial insolvency, enhance organizational sustainability and long term contribution to sustainable development. The importance of nonprofit organizations and rationale for commercialization of third sector organizations in developing countries is presented. The pros and cons for nonprofit commercialization are intensively discussed before proceeding to some of the key motivating factors for nonprofit commercialization. An empirical example is briefly presented to support this theoretical position. The paper concludes with implications of concept application for research, development and sustainability of the nonprofit sector in developing countries.

Keywords: Commercialization, Nonprofit Organizations, Developing Countries, Sustainability

1. Introduction

The importance of development nonprofit organizations (NPOs) in attaining the Millennium Development Goals in general, and in enhancing sustainable development in the developing world in particular has led to an exponential numeric growth, research and a developing literature on the economics of the nonprofit sector. This sector gains enormous importance particularly when states and markets are dysfunctional, function only partially, or fail. The bulk of the scholarly literature has focused on the economic theories of nonprofit organization [1-7]. Contemporary interest however is being demonstrated on the relevance of nonprofit organizations (alternatively called non-governmental or third sector organizations) especially in the development of rural areas and the restoration of the aftermath of disasters [8-11]. [9] for instance remarks the fundamental role of nonprofit organizations (NPOs) in livelihoods restoration in Indonesia after the ravaging Tsunamis of December 2004. [10] reiterate

the key role of third sector organizations in the development of rural Europe, while [11-12] demonstrate empirically the importance of NPOs for rural development in Cameroon.

The growth of the nonprofit sector has not only been dramatic numerically, but also in financial resource mobilization over the years. Drawing on data from the Union of International Associations, [13] for example reports that from an initial number of six International Non-Governmental Organizations (INGOs) in 1854, the number grew to over 1,000 in 1954 and over 60,000 in 2007. A recent survey among German NGOs reveals German NGOs mobilized financial resources more or less equivalent to the German Official Development Assistance (ODA) between 2005 and 2007 [14]. German NGOs were found to be more active in poorer countries although their rising financial dependence on ODA weakened their poverty orientation and provided an incentive to engage in "easier" environments. The German example

suggests that the fundamental issues undermining the functioning of nonprofits are at least twofold. Firstly, nonprofits can be more effective than hierarchies in reaching out to the poor under conditions of more financial autonomy. This conjecture is generally accepted in the nonprofit economics literature and has sufficiently demonstrated empirical evidence [see for example 13 & 15]. In fact, the improper conduct of public servants is increasingly being discussed by the press, often questioning the integrity of public servants in managing public enterprises [16]. Secondly, the dependence on official development assistance in the best scenario can dilute, and in worse situations truncate or drown out the focus, efficiency and effectiveness of nonprofits on reaching out to the poor: the widely celebrated asset of nonprofits over markets and hierarchies [13, 14 & 16].

The rapid proliferation of nonprofits in developed and developing countries have been accompanied by a disproportionate, spiraling demand and competition for resources. Traditional forms for nonprofit financing such as capacity building [18], diversification of funders and strategic partnerships between nonprofits and business [19] and north-south partnerships [20] are no longer sufficient. For developing country nonprofits, procurement of external funding through north-south partnerships is usually the most important source of organizational financing. Major contemporary events such as the recent global financial crises and aid harmonization endorsed by the 2005 Paris declaration have, arguably affected the quantity and regularity of external financial flows to nonprofits. This urges especially developing country nonprofit economists to analyze and reflect not only on the impacts of such events on the nonprofit sector [21] but also to contemplate innovative financial sustainability options. For nonprofit organizations in developed countries, it is essentially a change of principle and methods and a risk of mission drift considering that a substantial amount of their funds now emanate from official channels [22]. At the same time, it is close to destitution for developing countries nonprofits that normally are not financially supported by their respective hierarchies.

Developing country nonprofits is used here to describe the totality of nonprofit organizations originating and operating in developing countries for the promotion of ideological and altruistic motives, and the creation of public goods, in the presence or absence of state and markets. Specifically they describe nationally-based nonprofits managed mostly by local experts, and exclude International Nongovernmental Organizations (INGOs). Their objectives may align parallel to those of the state, especially when the state's utility function is directed towards maximizing votes needed to "democratically" stay in power [7]. These nonprofits generally depend on external funding for survival and almost seldom receive financial support from internal markets, state, church institutions and private individuals, the only exception to this rule being members' fees. They run the risk of financial insolvency and eventual organizational disintegration. Financial insufficiency jeopardizes nonprofit performance in poverty reduction, particularly in difficult areas where

markets and hierarchies fail [17]. Crucially, some degree of financial sustainability is a general precondition to access conditioned funding from northern partners. Many southern partners for instance either do not pay for staff remuneration and other running costs, or have limited, usually unrealistic restrictions on these budget items. At the same time, these items are essential for organizational sustainability. Consequently, many nonprofits in developing countries brain storm and test a number of fund raising strategies that can enhance long term collaboration with northern partners and enhance organizational financial sustainability. "Commercialization" as used in this paper is not a complete innovation in the nonprofit economics literature "Business like", "commercial revenue generation", "commercial operations", or "entrepreneurship" are familiar synonymous terminologies to commercialization often used in the nonprofit literature [3,4,5,23-28]. However, whenever these synonymous terminologies have been applied, corresponding emphasis is made on the social construct of the intended notion of "profits". These socially constructed profits are construed as key motivational factors of nonprofit entrepreneurs to achieve their altruistic objectives, as the profits are subject to a non distribution constraint [1, 5, 7&29]. For-profits-in-disguise is frequently used to qualify nonprofits who engage in profit seeking missions which are not openly expressed in missions, and secretly distribute accrued benefits to members [4&5] These forms of profits are more likely to operate in developing countries.

Since [30] raised key deficiencies in the nonprofit literature, significant responses have been recorded only in the developed countries nonprofit sector. For example, her worries on whether nonprofit revenue sources vary or not across countries, or if and how funding sources and government policies affect nonprofit behavior have witnessed increased attention in the west [4, 5, 18-20, 25&31]. While significant advances have been made in the developed country literature, not enough is known about the nonprofit sector in developing countries. This paper discusses the option of nonprofit commercialization and its possible contribution to a sustainable nonprofit sector in developing countries.

The next section briefly discusses the concept of nonprofit commercialization. Some motivational factors for this theoretical thrust are presented in section 3. Section 4 presents an empirical example that supports the current argument. Section concludes with policy implications for nonprofit commercialization in the developing world.

2. The Concept of Nonprofit Commercialization

Commercialization has emerged in the nonprofit literature to describe strategic engagements by nonprofits not necessarily (but probably) related to its core missions, designed to generate extra earned incomes. By definition, such incomes are distribution-constrained and complementary to, or supportive of the organization's nonpecuniary, ideological,

altruistic or public goods creation motives [5-7 & 25]. Nonprofit managers' self interest remains socially determined. Put differently, managerial non self-interested motivations consist in the gratification of nonpecuniary preferences [7], and earned organizational incomes strengthen these motives. Pecuniary motives remain overridden by nonpecuniary incentives. In fact, the desire to sustain nonpecuniary motives provides the motivation for commercialization. Thus commercialization is understood as an instrument for enhancing nonprofit financial sustainability, and at the same time holding and maintaining organizational status quo in terms of missions and objectives. This conceptualization allows NPOs to engage in economic development, for instance by running or managing businesses or income generating enterprises. It has been – and sometimes wrongly concluded in the nonprofit literature that commercialization impairs the ability of nonprofit organizations to deliver their missions [28&32]. The contemporary nonprofit economics school dismisses this mechanistic view, proposing a systems approach that allows the contribution of commercialization to performance, self regulation and mission drift to be analyzed best on a case by case basis [5&24]. To illustrate with the words of [5:118]: "nonprofit organizations can earn and retain financial surplus ("profits") provided they do not pay dividend checks or their equivalents to board of directors or top managers. Instead, such surplus is retained, reinvested or given to another nonprofit organization. Some NPOs derive all their resources from commercial operations, and in this sense, are just as much "for profits" as any for-profit firm. The distinction [between these and for-profit firms] is that, they must retain or reinvest their profits" Reference [5] was referring to the nonprofit sector in the developed world, specifically in the United States. This discourse extends this model to the context of developing countries. Profitability is a commercialization goal, but it is not the prime motive for organizational emergence. Profits must be re-invested for the attainment of organizational prime missions such as poverty alleviation, food security and natural resource management, rather than being distributed to members. Theoretically, Commercialization occurs when nonprofits engage in the production of goods and services with the explicit intent of earning a profit [25]. However such profits must be distribution constrained and destined to support the attainment of altruistic objectives. According to [24], commercial activities in nonprofits should be a prerequisite for delivering their core missions, especially when donations go down or approach extinction. As this is a major challenge for most nonprofits in developing countries, commercialization is seen as a sustainable option.

A conceptualization of nonprofit commercialization as discussed in this paper calls for further consideration, deeper analysis and subsequent testing. Initially, it raises at least four types of contra arguments. First commercial ventures can distract nonprofit entrepreneurs from their core missions, and in the extreme, 'crowd out' these missions. Incorporating commercial to noncommercial concerns therefore requires a delicate balance between the urge for extra incomes and

staying on course with original mission-related objectives. Perhaps one way to overturn this handicap is a logical and spatial separation of for-profit entity from the day-to day operations of the parent organization and its underlying objectives. Secondly, nonprofit entrepreneurs may resort to rent-seeking behavior, unless appropriate monitoring and incentive systems are developed. A mixture of financial and non-financial incentives is probably the best way to motivate nonprofit entrepreneurs under these circumstances [33]. Thirdly, a conflict of interest and distrust may emerge between nonprofits and their target groups, if the latter provide the market for profit-oriented goods of the former. Target groups and economic theorists may question the *raison d'être* of nonprofits when profits increasingly occupy an important place under imperfect market conditions. Here a wider diffusion of information on organizational activities and goals seems to be a logical thing to do. Lastly, nonprofits may have to compete with for-profit firms in the same market, and a lack of experience may have negative repercussions on the NPOs, truncating a thorough distinction between revenue and profit [23]. This may however not arise, if the for-profit unit is insulated from the core organizational mission; if business capacity of nonprofit managers is upgraded; or if a stream of business – minded entrepreneurs is directly employed.

In spite of these shortcomings above, the evident deficiency of nonprofit – financing alternatives for many NPOs in the developing countries leaves them with the option to implement or at least contemplate commercialization under current constellations. In fact it is becoming more evident that even for NPOs in developed countries; the supply of critical resources is insecure [24]. Profit seeking is increasingly seen as a feasible financial option to enhance organizational sustainability. A Bridgespan Group survey in the United States in 2003 supports this position, as half of the respondents agreed that generating income through commercial activities would be important in bolstering future organizational revenues [23]. Examples of income generating low income housing projects have been reported in the United States (see for instance [34]). The issue of nonprofit commercialization is therefore gaining importance in the theoretical discourse as a self regulatory mechanism that enables nonprofits to deliver their missions particularly in hostile political and financial environments as common in many developing countries [5&24].

The increasing contemplation of commercialization by developing countries' NPOs has been exacerbated in recent years by a number of trends, pertinent factors and events. A few will be briefly discussed in the following section. As will be observed there seems to be sufficient reasons to contemplate profit – seeking ventures as an integral part of fund raising for NPOs in developing countries. As it stands, commercialization is arguably a prerequisite for organizational and developmental sustainability. Motivating factors leading to this position will be discussed in the following section.

3. Motivational Factors for Nonprofit Commercialization

In this section, some key push factors responsible for contemplating nonprofit commercialization are discussed. While I do not pretend to exhaust all the factors, issues raised and discussed are meant to stimulate further debate and policy discussions on nonprofit commercialization in developing countries. The discussion nevertheless illustrates the need for development policy to embrace nonprofit-profit-seeking options as prerequisite for financial autonomy and sustainable development, especially in developing countries. Such options need to be supported.

3.1. *The Negative Consequences of Global Shocks*

Economically unfavorable events such as financial crises and the increasing occurrence of natural disasters provide no comfort to nonprofit managers, in relation to funding and organizational sustainability. History holds that shocks such as world wars or the great depression have had significantly negative effects on the nonprofit sector [13].

Salvaging bankruptcy emanating from a global financial crisis may divert funds intended to support the activities of nonprofits. For instance, towards the end of 2008, the United States, British, German and French governments granted bail out packages to crumbling Banks and major financial institutions of US\$ 700 million, 422 million, 672 million and 491 million respectively [21]. Such payments have negative impacts on development cooperation in general, and on funding nonprofit sector in particular. But charity and philanthropy are not only the business of governments. Crucially they are also extended gestures of sympathy by societal higher and middle classes, to lower ranks of society [31&35]. Because economic shocks have strong negative repercussions on the middle class, leaner funding for nonprofits is expected from events such as the ongoing financial crises in Europe or the increasing number of global floods. Higher and middle class contribution constitutes a major portion of philanthropic revenue [21]. Nonprofits based in developing countries must therefore contemplate alternative income sources. Commercialization seems to be an appropriate and sustainable alternative.

The impacts of sudden welfare-loss inflicting events like natural disasters are more severe in developing than developed countries, due to weak economies and improper natural disaster institutions in the former, and better (including market) institutional arrangements in the latter. But even in developed countries the increased frequency of natural disasters is raising concerns. In the USA for instance, the upsurge in natural disaster losses has created widespread disruptions in the property insurance market and generated calls for Federal (State) protection against natural disaster risk [36]. In contrast, most developing economies have little public resources and can thus spend very little for the income security of individuals in the formal and informal labor markets [37]. Natural disasters result in human, material and financial losses.

More contemporary disasters with recorded high economic and human losses include the 1995 Kobe earthquake in Japan (or the Great Hanshin Earthquake) that caused economic losses of over \$100 billion while killing 6300 people; the 1994 Northridge earthquake in California with an economic loss of over \$ 44 billion and Hurricane Andrew in Florida of 1992 with economic losses of about \$17 billion. The largest (insured) damages in Europe were the winter storms of 1990 that resulted in an economic loss of \$ 15 Billion in addition to 230 lives [38]. Large disasters such as the 2004 Tsunamis on the Indian Ocean, the 2009 hurricane off Mexico's pacific coast and the 2010 Haitian earthquake cause untold damages, destroying real estates, killing hundreds of thousands of people and exposing victims to further risks [39].

Increasing occurrence of natural disasters generates at least three problems for the nonprofit sector in developing countries. Firstly, most disasters occur in developing countries, and impact more on the poor thereby destroying the foundations of prosperity that are often built with the help of the nonprofit sector. In other words, disasters have the potential to destroy the very goods and services provided by the nonprofit sector. Secondly, natural disasters, which are usually sudden events with difficult-to-assess impacts, drift donor concentration and philanthropic psychology from traditional livelihoods and sustainable development activities towards relief aid and humanitarian assistance. While this is both logical and human, it distorts cash flows to traditional activities of the nonprofit sector. Thirdly, governments, donors and International Nongovernmental Organizations (INGOs) are more likely to directly participate in humanitarian assistance for political reasons or for easy justification of taxes and other revenues. Such unpredicted behavior truncates budget flows of developing country nonprofits, leading to a sub-optimal attainment of planned nonpecuniary objectives. This is definitely unhealthy to organizational sustainability and long term poverty reduction.

3.2. *Global Institutional Arrangements. Example of the 2005 Paris Declaration*

The Paris Declaration on Aid Effectiveness is probably the most important contemporary institutional arrangement impacting the global official and non-official development assistance landscape. Based on its guiding principles of ownership, harmonization, alignment, results and mutual accountability, the Paris Declaration (which in itself is a follow up of the high level forum on harmonization in Rome – 2003), is a demonstration of global consensus to improve aid effectiveness in order to reduce poverty and accelerate the achievement of the Millennium Development Goals [40&41]. National partner country channels are to become the main channels of development aid, and aid will be aligned with recipient countries' priorities, strategies and operational frameworks. General Budget Support (GBS) is to replace the stand-alone program based approaches (PBA) hitherto implemented individually by donors, and harmonization of donor procedures and policies for enhanced performance and accountability will be the rule [42].

The outcome of the Paris *rendez vous* was time-bound targets and a working framework agreed upon by 35 donors, 26 multilateral agencies, 56 recipient countries and 14 civil society organizations [43]. Clearly, the Paris declaration gives priority to national governments institutions for channeling development aid. In developing countries, aid will be based on own priorities, elaborated for example in national poverty reduction strategy papers.

The paradigm shift enforced through the Paris declaration has immediate implications on the nonprofit sector. For example, increasingly, nonprofit activities will have to be funded through government channels. This creates at least two problems. First, governments who often do not finance nonprofit activities are expected to adopt this innovation. Such a strategic change needs time and goodwill on the part of governments. This is not likely to happen, at least not in the short run. Even so, governments are more likely to fund nonprofits who share government objectives. But most non-governmental organizations in developing countries emerge because of government failure [1&44]. More important, nonprofits often have widely different approaches to sustainable development and target groups than respective governments, whose prime objective usually includes (but is not limited to) staying in power. Accessing funds for such nonprofits may require new forms of lobby, mission drift or some form of loyalty to hierarchies that may circumvent or contradict original organizational objectives. Lastly, developing country governments are flawed with administrative bottlenecks and corrupt practices that delay timely disbursement of funds, if this choice is retained. A recent study in Zambia revealed that the GBS delayed disbursement because of problems with the national system, indicating that the national system's capacity to handle large amounts of resources and deliver them timely for effective implementation in each sector is not yet well developed. National systems were reported to be very distant from the grassroots [42] Thus although the first impacts of untied aid are being celebrated [45], very little formal analysis exists on recipient country practices, and aid impacts at country level in general, or on the nonprofit sector in particular [46]. Arguably, the latter sector must be disadvantaged by the present funding constellations. This conjecture is based on the assumption that developing country nonprofits operate in environments where voters' dissatisfaction with government provision levels is generally high, usually on issues that provide little comfort to hierarchies. Such areas are usually not the first choice of vote maximizing governments frequent in developing countries.

The Paris declaration explicitly mentions its commitment to addressing the challenges of corruption and lack of transparency, which erode public support, impede effective resource mobilization and allocation and divert resources away from activities vital for poverty reduction and sustainable economic development [41]. The declaration recognizes that corruption inflicts unreliability on corrupted partner country systems. Thus although there is an explicit intent to fight corruption, no concrete measures are outlined on how this will be done within the framework posed by the

declaration. Late President Oma Bongo of Gabon for instance, upon his death in June 2009, bequeathed 70 external bank accounts and 29 estates in France to his family. Yet in this country, 80% of the population lives in great poverty [47]. Using Gabon as an example and relating the above revelation to Gabon's corruption rank (without claiming any direct causal relationships), it could be conjectured that substantial portions of Official Development Assistance or Global Budget Support channeled through corruptive hierarchical structures return to developed country economies; are not channeled to nonprofit organizations and do not have any significant impact on poverty reduction, food security and sustainable development in recipient countries. These areas need further research for full conclusions to be made.

In many developing countries where corruption is the rule than exception, nonprofits usually represent the accepted institutional form for social development. But relations between hierarchies and nonprofits are tensional, considering that nonprofits often deliberately work for the interest of the less than median voter, whose specific needs are often neglected by state and market institutions. It is very unlikely that the Paris declaration and its underlying principles will have overall positive impacts on the financial inflows of the nonprofit sector in developing countries. Alternative sources must be contemplated by nonprofit entrepreneurs, to prevent the sector from withering. Commercialization seems promising.

3.3. Seeking Own Identity, Taking Full Responsibility and Pursuing Own Goals

Developing country nonprofits overly depend on charity and philanthropy. The subsequent goodwill of donors expressed through funding is often accompanied by stringently-bounded conditionalities, irrational ceilings and unrealistic maximum duration of funding. These impediments doom the exquisite delight of nonprofits in developing countries of enjoying the nonpecuniary benefits accruing from the attainment of self-defined objectives. In fact rurality and its accompanying objectives have been hypothesized to portray the fundamental rationale for the emergence of nonprofit organizations in rural areas [10]. Financial conditionality imposes a twist in own (rural) objectives, usually in the direction of the piper, and contaminates the communication of own values. Strong externally-driven policies have been responsible for voluntary failure and technology disadoption [5, 11&48]. Such perverse policy frameworks, coupled with a risky financial environment do not provide comfort to modern nonprofit entrepreneurs. In fact, most rational entrepreneurs will choose the course that secures maximum nonpecuniary benefits from which they derive their motivation with the minimum possible risk. Also nonprofits loose their original focus and cannot take full responsibility or credit for actions implemented under strong donor-driven policy prescriptions. A surer conditionality for exercising own goals, identifying own principles and maintaining own identity depends on a satisfactory amount of financial independence. Nonprofit commercialization has the potential

to motivate this goal in the nonprofit sector in developing countries.

4. Nonprofit Commercialization: Empirical Evidence from Cameroon

In this section, the concept of commercialization is illustrated empirically, with a nonprofit organization in Cameroon. The organization is briefly presented before proceeding to a succinct examination of the contribution of commercial activities to its budget, and the evolution of this contribution over time.

4.1. Organizational Background and Research Methodology

The Babungo Babungo Integrated Mental Health Care (BIMEHC) is a duly registered nonprofit organization, operating in Ngoketunia Division in the North West region of Cameroon. Created in 1959 as a traditional psychiatric home, it grew to become one of the few places in Cameroon where psychiatric patients could be admitted and treated for their mental health problems, by combining traditional and modern approaches.

In 2001, this charity health foundation out of necessity included a primary health care unit to provide general health care services and combining modern medications, hand in hand with tradi-practices, in the management of mental patients. This change attracted enormous external funding. By 2003, Voluntary Service Overseas (VSO) volunteers started arriving at the center. Since then, the NPO has expanded its activities to cover other areas such human rights and advocacy for underprivileged groups, income generating activities, capacity building workshops, watershed protection,

sustainable agriculture, entrepreneurship and livelihoods as at 2011. Its activities have also expanded to education for under privilege in the society with emphases on the girl child. With these activities, it intends to achieve its vision of a society in which all persons, especially the underprivileged have acceptable access to basic health, economic resources and social facilities necessary for a normal life.

BIMEHC's mission is to contribute to this vision by engaging in domains such as the provision of basic health care for the poor; empowerment of underprivileged groups, promotion of sustainable agriculture and income generating activities and promotion of education within the underprivileged group in the society.

For the purpose of this paper, the budget of BIMEHC is examined over three periods: (1) in 2001 when the organization integrated modern practices into its then traditional mental health care system. This year represents the period of strategic change in the organization's history; (2) in 2006 when the organization was booming. This also corresponds to the period when the organization made enormous expenses on the establishment of commercial activities, namely modern guest houses, payable housing facilities for patients and agricultural activities such as poultry, pig and maize production ; and (3) in 2011, when external funding became much more difficult, following stringent implementation of the 2005 Paris declaration. Data was collected from the organization's annual accounts with the permission of the management. The choice of the organization was purposive, mainly based on the fact that it was willing to share its financial information with the researcher. The data was collected in November 2012. The results are presented in the table below.

Table 1. Nonprofit income analysis from donor and commercial sources: 2001 – 2011

Financial year	Total Realized Budget (FCFA)	Donor Funding (DF): FCFA	Contribution of DF to Budget (%)	Income from commercial activities (CA):FCFA	% contribution of CA to Budget
2001	9,000,000	7,257,250	80.6	1,742,750	19.4
2006	21,543,150	16,543,150	76.8	5,000,000	23.2
2011	34,574,345	19,727,400	57	14,846,945	43

Source: Adapted from BIMEHC's annual financial reports

Notes: 1 US \$ is equivalent to FCFA 450

2 DF = Donor Funding; CA= Commercial Activities

As observed from Table 1 above, donor funding has remained the most important source of income for the case study NPO, over the examined period. However, although the amount has generally increased in absolute terms, the actual percentage contribution to the total budget dropped from almost 90% in 2001, to less than 60% ten years later. Over the same period, income internally generated from commercial activities increased from less than 20% in 2001 to almost 45% in 2011. That the latter income has been crucial for the organization's sustainability suggests that nonprofit commercialization is possible, without an essential drift in organizational missions. Discussions with the center manager revealed that nonpecuniary activities such as training

workshops for mental patients and educational support to underprivileged children have greatly benefited from the increasing income generated from the center's commercial activities.

5. Conclusion and Implications for Commercializing the Nonprofit Sector in Developing Countries

The commercialization model proposed in this paper as an option for nonprofits in developing countries is far more than a demonstration of idle curiosity. Rather, it is a solid attempt to

extend a well known concept that has been contemplated, discussed and tested in the nonprofit sector of some developed countries, particularly in the United States for a very long time. The rapid proliferation of nonprofit organizations and their corresponding widely-accepted importance in reaching out to the less than median voters in developed countries warrants new forms of thinking, necessitated by the urge to overcome the problem of financial insecurity that may resolve in voluntary failure. A general reduction of financial flows to nonprofits has been strongly influenced by factors such as the exponential growth of nonprofit organizations, global financial crises, mounting natural disasters, and perverse institutional arrangements such as the Paris Declaration. The General Budget Support approach of the Paris declaration for instance seems to have neglected the level of corruption endogenously embedded in southern hierarchies, and the differential objectives pursued by hierarchies and nonprofit organizations. The need for pursuing own agenda and taking total responsibility seems to be an argument in favor of a more financially independent nonprofit sector in developing countries. But the traditional forms of financial risk reduction in the nonprofit sector such as capacity building, diversification of funders, strategic partnerships between nonprofits and business, and north-south partnerships no longer seem sufficient to ensure financial sustainability and steering own identity and objectives, especially for nonprofit organizations in developing countries. It seems logical to consider the engagement of nonprofits in profit-generating ventures, under the assumption that such profits remain distribution constrained and that the pecuniary motives of nonprofit entrepreneurs remain overridden by nonpecuniary incentives.

The introduction of commercial activities introduces new risks, such as rent-seeking behavior and the possibility of mission drift. Also, there is no assurance that commercialization will automatically lead to financial sustainability. A delicate balance therefore has to be made to insure that the benefits of the innovation subdue the accompanying risks and costs. It has been suggested for example to introduce adequate incentive systems as an antidote for rent-seeking behavior by nonprofit entrepreneurs, and to commence the nonprofit activity as a separate unit to avoid truncating original objectives. Meanwhile development research should seek to understand the perceptions for commercialization amongst developing country nonprofit entrepreneurs, and subsequently identify successful domains for nonprofit commercialization, best on individual basis.

Nonprofit commercialization is not presented as a panacea for all nonprofit financial problems. It should be mentioned here however, that not all nonprofit organizations are exposed to high financial risks. For needy organizations, profit-seeking ventures may present a way towards financial independence. Nevertheless, like any innovation, its consequences and accompanying risks must be well analyzed prior to implementation. As mentioned above, an assessment of existing organizational capacity, commercialization perceptions and intended product markets are imperative.

Otherwise, as past experience has shown, nonprofits may be worse off engaging in profit seeking ventures, in an attempt to improve financial self sufficiency. The empirical example presented in this paper suggests that nonprofit commercialization can be a plausible option for not-for-profit organizations in developing countries. However, further research will be necessary to ground this theoretical position.

Nonprofit commercialization has a number of key implications for development policy. First, external donors must reduce the conditionalities often attached to funds directed to southern nonprofits, and procreate self realization by these organizations. Voluntary failure has often been attributed a large extent, to strong donor driven policies. Secondly, external funding to nonprofits should increasingly be directed towards activities that attain the twin objective of reducing poverty and enhancing nonprofit financial sustainability. Meanwhile, nonprofit entrepreneurs in developing countries are expected to develop and implement strategies and policies that allow reasonable income generation, aimed at supporting nonpecuniary objectives, with very little or no drifts in the fundamental organizational objectives. In the meantime, research should focus on understanding the managerial perceptions of southern nonprofit entrepreneurs towards own income generation. Further research on the impacts of global institutional arrangements such as the Paris declaration on poverty reduction in general, and on nonprofit organization in particular will be needed to inform and orientate policy makers on the outcome of global policy prescriptions, such as the Paris declaration, and on supporting nonprofit commercialization in developing countries.

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