



Self-financing Activities Among Civil Society Organizations in Peru: A National Assessment

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The Peru report serves as a basis for research in determining the country's needs and preparing the capacity-building tools and support for nonprofit organizations seeking to implement or expand a social enterprise. The methodology applied in the development of this report has been developed by NESsT over the past 10 years.

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Introduction

This document is a summary of self-financing activities¹ undertaken by civil society organizations (CSOs²) in Peru. The organizations included in this study have in common that they are guided by social missions promoting systemic societal change, and the self-financing activities they carry out are designed to generate profits that can be used to achieve their social mission, or indirectly, for the self-sustainability of the organization. That is, this investigation analyzes the different strategies and mechanisms of self-financing utilized by CSOs in order to guarantee the fulfillment of their social missions.

In Peru there is a wide variety of cases and trends in self-financing by civil society organizations. There are organizations that sell products; organizations that offer microcredit services with a focus on development; organizations that offer services such as consultancy or training; the sale of publications; pedagogical services; and the certification of companies, among others. In the same manner in which there is a wide variety of cases and strategies of self-financing, there are also great variations in the success that these activities have. We have seen cases in which self-financing makes up almost 100% of the budget of the organization and other cases in which it contributes only 5% or 10% of the budget and thus does not generate a significant profit for the organization. Also, there is a great variety in the size of the civil society organizations that develop self-financing activities.

While there are distinct trends and some cases can be considered successful, we cannot say that the practice of self-financing of civil society organizations with social missions in Peru is a widespread phenomenon. It is possible to say that the majority of autonomous civil society organizations engage in self-financing activities; but ironically, the small minority that work in favor of systemic social change — the self-denominated “NGOs” — is the group that most depends on foreign donations, and most of them do not succeed in sustaining themselves with their own resources. In Peru what transforms a nonprofit civil association (asociación civil sin fines de lucro, or ACSFL) into an NGO is precisely the fact that it receives international cooperation (funding from foreign governments or multilateral agencies). In formal terms, the Peruvian International Cooperation Agency (Agencia Peruana de Cooperación Internacional, or APCI) is promoting the requirement that organizations officially register as an NGO (with APCI) to receive international cooperation funds³. There are 19,000 registered ACSFLs, 2,000 of which declare that they operate with international cooperation⁴.

¹ NESsT uses the term “self-financing” to refer to diverse strategies used by civil society organizations to generate their own revenues (sale of products, service fees, use of hard or soft assets, and dividends or investment income). NESsT uses the term “social enterprise” to refer to self-financing activities that are designed by a CSO to significantly strengthen the financial sustainability and the mission impact of the CSO.

² NESsT uses the term “civil society organization” (CSO) to refer to a wide range of formally registered nonprofit, non-state organizations or community-based associations and groups that fall outside the sphere of the government and business sectors.

³ This theme is addressed in detail in the sections on international cooperation and the legal framework.

⁴ Luis Castillo, legal advisor to the National Association of Centers, interviewed on May 8, 2006.

The supposed withdrawal of international cooperation from the country is a phenomenon that also is analyzed in this report. For almost two decades, CSOs have been discussing the imminent and progressive withdrawal of international cooperation, which has in turn motivated them to undertake self-financing activities. As we will see further on, while there has been a shift in priorities and in the frameworks of action of international cooperation, accompanied by the withdrawal from Peru of certain agencies, there has not been a substantial decrease in the volume of international cooperation in the country.

This report is divided into seven parts. The first presents the research methodology applied to this report. The second is a general characterization of the nonprofit sector in Peru and its relation to the Peruvian state and international cooperation agencies. The third section presents general trends in CSO self-financing in Peru. The fourth includes an analysis of nine cases of CSOs with self-financing activities, each with its own diverse strategy and peculiarities. The fifth is a joint analysis of the case studies, identifying different problem areas and drawing conclusions from these. The sixth section summarizes the interviews conducted with CSO support organizations and donors regarding their impression of CSO self-financing activities, their evaluation of already-existing support activities, and an identification of the activities needed to support the sustainability of these organizations. Finally, the seventh part presents information on the legal and tax context in which CSOs operate and develop their self-financing activities, analyzing obstacles and opportunities presented by these contexts.

This investigation would not have been possible without the cooperation of over 50 CSOs, support CSOs, donors, legal and academic experts and government representatives who have generously shared their knowledge, experience and time.

1. Research Methodology

This study aims to provide a deeper comprehension of Peru's civil society, specifically its practices and attitudes towards self-financing. Six fundamental elements were researched to gather a greater understanding of this sector and of income-generating activities in the Peruvian context. The first element involved bibliographical or secondary research on the following aspects: the history of the third sector in Peru, statistics and fields of activity in the sector, infrastructure and support mechanisms used, and specific self-financing strategies and trends (see bibliography). The second element involved extensive interviews with experts on civil society in Peru, including several academics and authors of research on the subject. The purpose of these interviews was to gather expert opinions on CSO sustainability in Peru and its trends and challenges⁵.

The other four elements involved primary research on CSOs and their self-financing strategies; the role of CSO support organizations and their attitudes towards self-financing; donor support – or lack thereof – for self-financing activities; and interviews with Peruvian experts on legal issues regarding the legal and regulatory framework for CSO self-financing activities.

Primary research involved personal interviews with representatives from Peruvian CSOs. This involved in-depth interviews based on a highly structured questionnaire prepared by NESsT and used previously for this type of study in other countries. A selection was made from among a wide range of organizations, from the most traditional development NGOs with over 30 years of experience, to organizations created in the 1990s with a more entrepreneurial approach. Nine interviews were conducted overall⁶. Once this process concluded, three CSOs were chosen to present their self-financing experiences as detailed case studies⁷.

Research also involved a survey of CSO support organizations on their practices and attitudes towards self-financing. Eight support organizations were contacted, including national federations, local and regional resource centers, and local and international organizations. These were asked to fill out a questionnaire designed by NESsT on the role of CSO support organizations in the financial sustainability of Peruvian CSOs. Four organizations answered the questionnaire and were subsequently interviewed for this investigation: CARE, Caminando Juntos (United Way equivalent in Peru), Avina Foundation, and Save the Children Sweden.

⁵ Interviewees included the following, among others: Federico Arnillas and Luis Castillo, National Association of Centers (Asociación Nacional de Centros -ANC); Natalie Licht, GTZ; Aldo Panfichi, Open Society Institute; María del Carmen Portillo, Department of Housing (Ministerio de Vivienda) and previously APCI; Estela Gonzales, Canadian International Development Agency (CIDA); and Cynthia Sanborn, Universidad del Pacífico Research Center.

⁶ The following CSOs were interviewed: Consortium of Private Organizations to Promote the Development of Small and Micro Enterprises (Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa - COPEME); Center for Labor Rights (Centro de Asesoría Laboral - CEDAL); Support for Population Programs (Apoyo a Programas de Población - APROPO); Tarea Educational Publications Association (Asociación de Publicaciones Educativas Tarea); Volunteers for Life (Voluntarios por la Vida); Center for Development Studies and Promotion (Centro de Estudios y Promoción del Desarrollo - DESCO); Minga Peru; Environmental Enterprise Group (Grupo de Emprendimientos Ambientales - GEA); and Association of Rural Educational Services (Asociación de Servicios Educativos Rurales - SER).

⁷ The following organizations were chosen to present in-depth case studies of their self-financing activities: Consortium of Private Organizations to Promote the Development of Small and Micro Enterprises (Consorcio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa - COPEME); Environmental Enterprise Group (Grupo de Emprendimientos Ambientales - GEA) and Association of Rural Educational Services (Asociación de Servicios Educativos Rurales - SER).

The questionnaire addressed the following issues:

- the role of aid organizations in the diversification of CSOs' financing base;
- existing programs that contribute to CSO sustainability;
- support currently provided by their organizations for self-financing;
- their standpoint on the use of self-financing activities for CSO income-generating activities;
- the implications of business activities for CSOs and the nonprofit sector;
- their role and attitudes towards providing support for capacity-building and initial financing of CSO enterprise activities.

The fourth element of the primary research focused on the donors. NESsT asked 10 of the major donors operating in Peru, including private foundations, private corporations and donors, and government institutions, to fill out a brief questionnaire designed by NESsT regarding their role in supporting the financial sustainability of Peruvian CSOs. The following six donors responded: 1) three private businesses: AFP Integra, Interbank and JP Morgan Chase; 2) one multilateral organism: International Finance Corporation, Grassroots Business Initiative; and 3) two organizations representing Peru's corporate sector: the American Chamber of Commerce (AMCHAM) and the National Confederation of Private Businesses (Confederación Nacional de Instituciones Empresariales Privadas, or CONFIEP).

The questionnaire addressed the following issues:

- the role of donors giving aid to CSOs in diversifying their financing base;
- support from the organization interviewed for programs centered on CSO sustainability;
- the capability of the organization interviewed to establish a balance between a CSO's long-term financial sustainability and the creation of dependency;
- the attitude of the organization interviewed in terms of a CSO's use of income-generating activities;
- the implications of business activities for CSOs and for the nonprofit sector;
- support from donors for self-financing activities in Peru;
- prior support given by the organizations interviewed to CSOs for development of business activities;
- the role and attitude of the organization interviewed in terms of providing support for capacity-building and initial financing of NGO enterprise activities.

Finally, primary research examined the legal context for self-financing. Beatriz Parodi⁸, a renowned attorney with a wide range of experience in the nonprofit sector was hired to conduct an in-depth study of the

⁸ Beatriz Parodi Luna, Peruvian attorney and legal consultant, is a specialist in nonprofit entities and international technical cooperation. She has worked as university professor at the School of Law of the Pontificia Universidad Católica del Perú (Lima), in Legal Entities. She has conducted research on the Third Sector and Corporate Social Responsibility and has lectured at several national and international events and conferences on the Peruvian legal framework for nonprofit entities.

legal and regulatory framework associated with CSO self-financing activities. She used a general questionnaire facilitated by NESsT and a guideline developed by the International Center for Nonprofit Law (ICNL) and adapted by NESsT to describe, define and assess the Peruvian legal context. The results of this investigation were compiled and published in a document entitled “The Legal and Regulatory Framework for CSO Self-financing Activities in Peru”.

2. The Third Sector in Peru

The third sector in Peru is considered extensive, diverse, and fragmented by most specialists (Portocarrero et. al. 2002).

Traditionally those organizations that do not belong to the public sector or the for-profit private sector, but are rather private entities that do not seek a profit, have been known collectively as “civil society” or the “third sector”.

Civil society organizations in Peru are very important given the weakness of the state in developing and managing social policies and the limited capacity of the business sector to resolve the needs of a wide segment of the population. CSOs have emerged specifically to respond to these needs and to address these policy interests. Also, the third sector “oversees the government, promotes volunteer work and donations, creates social networks, produces mechanisms for the distribution of information, and mobilizes considerable economic and financial resources” (Ibid.: 12).

Nevertheless, the third sector in Peru cannot be thought of as a homogenous block. The diversity of organizations that are considered part of the third sector is great; it includes grassroots organizations, sports clubs, non-governmental organizations (NGOs), and all types of volunteer organizations, both private and non-governmental, which do not share profits among their members. Also, CSOs are associated with different political positions.

This study examines only those CSOs that have social missions, that is, those that promote specific public interests beyond the interests and claims of their members. For the purposes of this study, the term “third sector” will be used to make reference to those CSOs that have an agenda for social change; that is, organizations such as soccer clubs and other civil associations that do not have agendas for social change will not be included in this group.

2.1. The Third Sector: A New Financing Paradigm

Since the beginning of the 1990s, with the rise to power of President Alberto Fujimori, the peak of neoliberalism, and the new role of the market as protagonist, the mandates of agencies of international cooperation in Peru were restricted. These processes, accompanied by the disintegration of the left, meant a paradigm shift for the development of CSOs in the country. Civil society organizations that

belonged to the National Association of Centers began to predict a pessimistic scenario in which there was a decrease in the amount of resources from international cooperation and they began to evaluate possible alternative strategies for their sustainability. It was then when the topic of self-financing entered the internal discussions of the organizations of the third sector⁹.

While not all CSOs developed self-financing mechanisms in the face of this gloomy scenario, the majority did acknowledge the need to adapt to these trends and to re-design their institutional development goals to be clear but flexible. They had to also “make their programs more efficient and effective, streamline their organization and management, adjust themselves to the market, offer services and generate better levels of sustainability which would permit them to depend less and less on the fluctuating funds of international cooperation” (Asociación Certum: 14).

Civil society organizations therefore had to redefine their role in society, and look for new forms of acquiring income. They embarked on processes of reengineering that aimed to streamline their organizational processes, reduce costs, increase administrative efficiency and specify more concretely the lines of actions they would focus on. Some CSOs broadened their focus themes in search of funding opportunities, while others decided to specialize in one determined line of action. With the withdrawal of cooperation given on the basis of political solidarity, they began to focus more on funding from open calls for competition and on developing self-financing strategies.

They also began to pay more attention to those funds coming from corporate social responsibility programs, although these were perceived as restricted and limited by the needs of the companies. In Peru, tax benefits for corporate donations were eliminated in the early 1990s, and therefore there are no tax incentives for corporations to support CSOs. Corporate social responsibility is mostly practiced by the mining sector among those communities affected by mining and by businesses that give donations to the Peruvian League in the Fight against Cancer and the networks of the Catholic Church. Currently, therefore, the discourse on social responsibility is more rhetorical than actual.

In the mid-1990s, within the context of a possible withdrawal of international cooperation, the idea of developing capital funds for the sustainability of NGOs was proposed by the National Association of Centers to cooperation agencies. The agencies, following a period of negotiations, did not agree to the proposal. They argued that their role in the country was not to help consolidate NGOs, but rather to

⁹ Federico Arnillas, interviewed March 15, 2006.

help grassroots organizations and promote development. In this way, the idea was abandoned.

2.2. Changes in International Cooperation

The generalized perception of CSOs that participated in this study is that support in the form of international cooperation is systematically declining. However, there is no proof that international cooperation is diminishing; rather, what is happening is a shift in the logic and forms of this cooperation compared to previous decades¹⁰. Although Latin America has ceased to be a priority region for international cooperation agencies, given that poorer countries of Africa and Asia have more urgent funding needs, Latin America has continued to receive more or less the same level of funding in absolute terms (Biekart 2005). Within the region, Peru continues to be a priority country for various cooperation agencies, despite the withdrawal of British funding and several other agencies in the last few years. Peru is one of the priority countries of the GTZ (German international cooperation agency), Canadian International Development Agency (CIDA) and the Open Society Institute (OSI), to mention some cases¹¹.

Since the start of the 1990s a paradigm change in the relations between NGOs and international cooperation has taken place, as discussed above. The general tendency through the 1980s was that support for NGOs was based more on political solidarity terms and therefore aimed at strengthening the institutions overall and covering their operational costs. Estela Gonzales¹², of the Canadian International Development Agency (CIDA), remembers that in this period, under the ideals of solidarity and support for a common cause, many vaguely defined projects were financed that did not require specific actions on the part of the NGOs being funded. With the installation of neoliberal governments in the 1990s, international cooperation agencies began requiring evidence of quantifiable and tangible results. The logic of cooperation from that point on was governed by the need to develop concrete projects and results, and the work of NGOs was evaluated in terms of its immediate impact¹³. In this context, the financing of operational costs of NGOs ceased to be a constant. New organizations that appeared after these changes took place emerged with this new logic and requirements.

Another change that has taken place is that the use of competitive tenders for funding has become a common practice, which has led to greater competition for limited resources exacerbated by the growing number of third-sector organizations. Arbitrary financing decisions have diminished, which is positive, but this has also meant that the same organizations tend to win the majority of funding available, since

¹⁰ Biekart 2005; Asociación Certum 2005; Eduardo Ballón interviewed March 10, 2006; Cynthia Sanborn, interviewed April 11, 2006; Aldo Panfichi interviewed April 17, 2006.

¹¹ Aldo Panfichi, interviewed April 17, 2006; Nathalie Licht, interviewed April 18, 2006.

¹² Interviewed May 11, 2006

¹³ Eduardo Ballón, interviewed March 10, 2006.

international cooperation agencies have shown a preference for working with NGOs that have greater institutional presence and work on projects with broader scopes. Although the method of competition can be a less arbitrary strategy for selecting which organizations to finance, these larger NGOs do not necessarily share the same goals the agencies aim to reach¹⁴.

In the context of emphasizing values such as the efficiency and effectiveness of NGOs, there is a greater concern on the part of international cooperation agencies about monitoring the use of funds and establishing a series of success indicators for the programs that they finance. Concerning this point, Estela Gonzales¹⁵ believes that in the last few years the agencies have come to understand that extremes are bad, and that there must be both pressure to show results and flexibility in strategies. Strategic planning, therefore, becomes the most important basis for establishing the objectives of a project.

According to Gonzales, NGOs must be allowed to take advantage of the changes that happen along the way, to avoid losing opportunities because they are following the terms of their financing to the letter. Nevertheless, it remains certain that there exist certain NGOs, in general those that are the most traditional and political, that resist these new requirements. In general the third sector in Peru is a sector that wants to oversee but resists being overseen, and in which there is little accountability¹⁶.

On the other hand, international cooperation agencies define different agendas according to their thematic interests, which vary over time and which makes it difficult for NGOs to plan in the longer term. Also, with the second period of Fujimori, financing for democracy and citizenship increased, and in general terms, many NGOs abandoned their self-financing projects upon realizing that international cooperation was actually not being withdrawn from the country. Currently, the process of fiscal, political and economic decentralization underway has generated the proliferation of projects related to these themes and various local and regional NGOs have benefited from these projects.

2.3. The Current Situation of International Cooperation

The Peruvian Agency for International Cooperation, known as APCI, was created in 2002 as a dependent entity of the Ministry of the Exterior. APCI is “the governing body that manages programs, organizes and supervises granted international cooperation, of official or private origin...” (APCI 2005: 11). In 2005, APCI published the document “Situation and Trends of International Cooperation in Peru in 2004”, which elaborated a very extensive analysis of the role, the

¹⁴ Jack Burga, interviewed March 30, 2006.

¹⁵ Interviewed on May 11, 2006.

¹⁶ Aldo Panfichi, interviewed April 17, 2006.

principle characteristics, and the impact of grants cooperation on the development of Peru. According to this document, in 2004 the total volume of granted aid implemented by the Cooperación Técnica Internacional was US\$390 million; US\$219.6 million from bilateral sources, US\$60.2 million from multilateral sources and US\$110.2 million from nongovernmental sources. The resources increased from \$261 million in 1994 to US\$355.6 million in 1998 and finally to US\$390 million in 2004 (APCI 2005).

According to APCI¹⁷, the amount of resources managed by NGOs reached US\$210 million in 2004, while the resources managed by official entities totaled US\$180 million. The United States contributed the most resources to Peru, reaching US\$131.6 million, which represents 59.9% of all bilateral cooperation. The province that receives the greatest amount of resources is Lima.

In spite of these statistics, APCI considers international cooperation to be in a gradual process of withdrawal, due to the international qualification of Peru as a middle-income country, and due to the rising importance of new international topics for cooperation, such as the rebuilding following the tsunami in Asia and the reconstruction of Iraq, and the diverting of attention to poorer regions such as Africa. As a result, according to APCI, it is important for Peru to become more attractive in terms of international cooperation. For this to happen, cooperation needs to be better coordinated, strategies for acquiring new resources need to be established, databases strengthened¹⁸, and transparency among NGOs increased (APCI 2005: 28). On this last point, APCI points out that it is necessary “To reinforce the legal instruments that permit APCI to comply with its oversight obligations, specifically an obligatory registry of NGOs, with activities and characteristics of their projects” (APCI 2005: 29). As can be seen, they emphasize the oversight of the NGOs, but do not mention the necessity for better cooperation between the state and NGOs, or the possibility of supporting the work of NGOs.

Until recently, APCI was engaged in a political dispute with NGOs in the country as it tried to position itself as the government entity responsible for overseeing their activities. The basis for the dispute was that, according to the Law of International Cooperation, APCI could only audit what CSOs did with resources provided through the Ministry of Foreign Relations (official non-private resources), but had nevertheless gone beyond its mandate by seeking to audit the actions of some CSOs which are not registered with APCI and moreover do not receive funds from the Ministry of Foreign Relations. As part of a sustained campaign to diminish the prestige of CSOs (especially those promoting the defense of human rights and respect for the environment) by certain politicians, business leaders and the press, the

¹⁷ Peruvian Agency for International Cooperation: *Situation and Trends in International Cooperation in Peru*, 2004. Lima: APCI, 2005.

¹⁸ Databases of NGOs and projects developed in Peru.

government passed the “Law modifying the creation of the Peruvian International Cooperation Agency” (Law 28925) on December 6, 2005, two days after it was approved by Congress. This law mandated, among other requirements, that NGOs register with APCI so that the agency could supervise cooperation grants “regardless of the legal nature of the cooperation source” and that APCI could approve or disapprove projects presented to international cooperation agencies in an effort to avoid duplication and orient the projects toward development goals deemed suitable for the country. Some members of Congress demanded that the law be declared unconstitutional, which did happen, in part.

In its sentence on August 29, 2007, the Constitutional Tribunal of Peru ruled partially in favor of CSOs, finding unconstitutional the law’s stipulation that these organizations inform APCI about the management of funds received from cooperation sources, on the grounds that they are not public funds. However, according to the tribunal’s ruling, NGOs are required to register their projects, programs and activities with APCI. And the state can still “prioritize” agreements between NGOs and cooperation agencies as long as this relates to public funding.

3. Trends in Self-financing Among Civil Society Organizations

According to Federico Arnillas, executive director of the National Association of Centers, self-financing activities of CSOs is a topic nearly as old as the CSOs themselves. Nevertheless, according to Arnillas, the majority of CSOs have not achieved complete autonomy from international cooperation. While many CSOs operate successful self-financing activities, achieving independence from international cooperation is difficult given that CSOs are governed by their social missions, which for many is a disadvantage when competing in the market.

This study identifies a wide diversity of self-financing activities conducted by CSOs. What is certain is that the larger the CSO, the more difficult it is for self-financing activities to cover a large portion of the budget. Also, the more established NGOs are, the more dependent on international cooperation, in spite of the process of reengineering many underwent in the early 1990s. According to Eliana Elías¹⁹, director of Minga Peru the third sector's "old guard" resists using the term "business" to describe their activities, as they see it as "abandoning the cause." Although there are some traditional NGOs such as the Peruvian Center for Social Studies (CEPES, for its initials in Spanish), the Bartolomé de las Casas Center, Alternativa and DESCO that have had positive experiences with self-financing, it is not a coincidence that the most successful cases of self-financing summarized in this study (APROPO, for instance) are not part of this group.

Civil society organizations in the country have developed various strategies for self-financing. One strategy is the creation of businesses that sell products, in some cases with a social purpose different from the social mission, and in other cases, conserving their original social purpose. This group includes organizations such as Volunteers for Life (Voluntarios por la Vida), which opened a pub to generate income which is used to sustain its social mission; the establishment of a mini-market by Arariwa in Cusco; the sale of biological and scientific controllers by the Center for Development and Participation Studies (CEDEP); the sale of contraceptives by APROPO; the sale of wallets and woven goods made by Shipiba women by Minga Peru; and the sale of alpaca meat by DESCO. Also included in this category is income from the sale of publications, such as in the case of the Institute for Peruvian Studies, but this tends to generate only very small quantities of resources. There is also a series of productive activities of small organizations associated with agriculture and livestock-raising.

¹⁹ Interviewed on April 24, 2006.

There are many organizations that provide microcredit services in Peru. With the neoliberal reforms came the idea that the work of NGOs needed to be “renewed”, and many positioned themselves as professional organizations and began charging for their services, emphasizing efficiency. Among these organizations are CSOs working in rural banking, entities that promote the development of small businesses (EDPYMES), the Small Business Development Companies (EDYFICAR) and COPEME.

There are also CSOs that receive income from the provision of services. In addition to the wide field of consulting services, there is the case of Tarea Grafica and its printing services; la Tarumba with its presentations and circus and clowning classes, which generate income to finance workshops with disadvantaged young people; and also those organizations that offer services related to ecotourism. Some organizations grant certification to businesses interested in being recognized as socially responsible, as is the case with the CEDAL. In the field of consulting, the most established are DESCO, GEA, the Development Analysis Group (GRADE), and the Peruvian Studies Institute, and in rural consulting the Peruvian Center for Social Studies and SER. In general, a large number of CSOs offer consulting services. There are also those CSOs that promote pedagogical work, organizing trainings, or specialized certificate courses or master’s degrees. That is the case of the Greater School of Municipal Management (Escuela Mayor de Gestión Municipal), which offers courses, certificates and master’s degrees in urban issues; another example is Atinchik²⁰, which dedicates itself to the “generation and application of innovative methodologies for development” through trainings provided to CSOs and state agencies.

In general, all of these mechanisms for generating income seek to progressively reduce the dependency of organizations on international cooperation. Nevertheless, these practices are dispersed among different CSOs, and in spite of their variety, are not widespread within the Peruvian third sector. We will see below nine experiences that illustrate in greater depth the issue of self-financing in Peru.

²⁰ www.atinchik.com

4. Nine Experiences of CSOs with Self-financing Activities

The experiences presented below include CSOs at different stages of development. Because research for six of these nine cases was carried out in 2006, budgetary information for those organizations reflects 2006 estimates and not final figures.²¹

4.1. COPEME

4.1.1. Organization Background

COPEME is a Peruvian nonprofit civil association that was created and registered with the Public Registry in Lima in July 1990. It was founded by a group of representatives of non-governmental organizations who wanted to promote the development and organization of micro and small enterprises. COPEME is a network of private organizations whose mission is to develop micro and small enterprises (MSEs, known as MYPEs in Peru) and its purpose is to “promote and carry out programs, projects, and activities aimed at developing the micro and small enterprise sector on a municipal, regional, and national level through its members” (COPEME 2007).

From the outset, COPEME formed a network or consortium of organizations, wherein partners receive partially subsidized training and services and pay yearly membership dues. This system had already been developed successfully in Brazil. COPEME currently operates as an umbrella organization that groups together approximately 60 nonprofit organizations from major cities in Peru for the purpose of promoting MSE development.

The mission of COPEME is to “coordinate programs implemented by private entities to support micro and small enterprises, and to influence public policy in this sector”. It works in two areas in order to accomplish its mission: 1) enterprise development and 2) microfinance. The organization has advocated on behalf of the sector and its efforts have been recognized, as it holds a seat on Peru’s National Microenterprise Board as the representative of civil society.

To meet its objectives, COPEME works in alliance with international cooperation organizations and government entities. The best example of this line of work is its participation in the MYPE PERU Coordination Team, an inter-institutional team that groups together international cooperation agencies, state organisms, unions, and MSEs.

²¹ This is true for CEDAL, Tarea Educativa, APROPO, Voluntarios por la Vida, Desco and Minga Peru.

Copeme was founded in the early 1990s, when funding for CSOs began to shift and became more focused on reaching measurable results. This went hand-in-hand with a decrease in funding for organization-building activities and operational expenses. As a consequence, COPEME has been developing self-financing activities from its early days. At the request of the European Union, the organization initially operated a financing program for MSEs known in Peru as FONDEMI (Fondo de Desarrollo Microfinanciero, or micro-finance development fund). Later, in 1998, it incorporated a microfinance institution (MFI) empowerment program offering technical assistance and training services as part of a larger project funded by the United States Agency for International Development (USAID). In addition, the organization has supported the creation of a savings and loan cooperative known as FORTALECER, in order to provide loans to its members. Finally, in the constant search for new products, COPEME also implements a micro and small enterprise certification program known as CERTIPYME.

One notable COPEME program is its Enterprise Development Services (Servicios de Desarrollo Empresarial, or SDE) for sharing new capacity-building methodologies in enterprise management with members and non-members, in order to strengthen and improve member services. Some examples of courses it has offered are: “Competition-based Economies through Formation of Entrepreneurs” (CEFE²²), “Start Your Business”, “Improve Your Business”, “Enterprise Management Elements”, “Improve Your Work Environment and Business”, and “Business Game”.²³ A third important initiative has been the development of the CERTIPYME certification system, which is based on the real needs of micro and small enterprises. COPEME has recently implemented the project “Business Linking System for Improving Productivity of Micro and Small Enterprises in Peru” under a business linking initiatives fund known as FIAC (Fondo de Iniciativas de Articulación Comercial), for resolving market bottlenecks.

4.1.2. Self-financing Activities

For its financing, COPEME channels resources from its programs and activities, as well as from the development of new products to meet the needs of member and non-member clients and organizations. One of the greatest challenges it faces today is the ability to generate its own resources to cover operational costs and break its dependency on grants from international aid agencies, which have provided the majority of the organization’s funding.

Clients of COPEME are primarily CSOs, including both members and non-members, who promote the development of micro and small enterprises. They also include municipal savings and loan associations,

²² This methodology is taken from GTZ (German Technical Cooperation).

²³ These are International Labour Organization (ILO) methodologies.

rural savings and loan associations, financial entities for development of small and micro enterprises, savings and loan cooperatives, cooperation agencies, and government programs.

COPEME's leadership considers that it is currently in a stable financial situation and is able to sustain its principal projects and programs. Its budget for 2006 was more than US\$2 million. Of this, just over 50% was financed by international aid agencies, almost 40% came from revenue generated through services provided to the business and government sectors, 4% from investment dividends, and 1% from membership dues. In terms of expenditures, about 80% of revenue is set aside for programs and activities, and about 13% is used to cover overhead expenses.

COPEME currently uses four forms of self-financing:

(1) *Consulting services*, including training in microfinance and enterprise management and technical assistance. The microfinance area is where revenue from consulting is highest, varying from US\$15,000 to US\$30,000 annually. Training in this area is aimed at clients with a greater ability to pay, such as savings and loan associations, whereas technical assistance and training in enterprise development is directed towards CSOs with a more limited payment capacity and these services tend to be subsidized.

(2) *FORTALECER savings and loan cooperative*, granting loans to partner CSOs so that these may in turn lend to end users, such as rural farmers. The cooperative operates two loan programs with a value of US\$1.5 million each. One is supported by the Inter-American Development Bank (IDB) and the other by the Ford Foundation. The interest rates on these loans are very low (2% and 3% annually) and they have year-long grace periods and an overall repayment period of 10 years.

(3) *Membership dues*, which in 2006 brought in an estimated US\$28,000, with just under 20% in late payments.

(4) *Other activities such as MSE certification (CERTIPYME)*, a quality certification system for micro and small enterprises which COPEME manages in conjunction with two well-known enterprises (Quality Consulting S.A. and CERPER S.A.). COPEME charges a fee for each enterprise it certifies.

The organization has provided a total of 43 technical consultancies since 1998 to individuals and groups, for institutions such as municipal associations, rural associations, cooperatives, and urban and rural CSOs. The total amount generated by these consultancies is US\$1.63 million. Trainings have been provided to a total of 151 institutions in

different regions, with 3,365 people enrolled and 68,688 person-hours of training delivered. The network has grown from eight organizations to 34 members today. The savings and loan cooperative already covers its operational costs and its potential for growth is strong.

Through self-financing activities, COPEME has been able to partially finance its programs (between 30% and 60%), although its goal is to achieve 100% self-financing. Its primary source of funding to date – a grant for the services it provides (the USAID project)– ended in 2006. As a result, the organization needs new sources to subsidize its services and finance the projects it has planned. To address this challenge, COPEME is developing new services, as its leadership believes that the CSO market has "a very low ceiling" and will always need subsidies to offset fees. However, COPEME is also conscious of the need to ensure that any new services are aligned with its mission.

COPEME's technical assistance and training services have allowed the organization to cover more of its operational costs and increase its capacity to meet institutional objectives. Consulting services have also proven to be sustainable over time. The organization has always charged a fee for the services it offers, but on a sliding scale depending on the client's capacity to pay.

In terms of microcredit management through FORTALECER, the cooperative has facilitated loans to applicant enterprises and receives a commission of 0.5% upon credit approval. A percentage of these loans (about 20%) are set aside for financing technical assistance (training and services), which provides subsidies for enterprises with fewer resources.

Among self-financing activities, membership dues is the weakest area, as its contribution to the annual budget is low and there is almost 20% in late payments among members. COPEME needs to continue its search for a strategy to strengthen and increase this revenue stream and make it more stable.

Finally, the CERTIPYME certification system has provided a quality accreditation system for micro and small enterprises which has led many of them to improve the quality of their products and services.

COPEME is convinced that in order to build skills, nothing should be provided for free. As the organization strongly believes in applying its own teachings, it strives for its member organizations to be self-sustaining and has chosen self-financing as the basis of its own work. An important learning experience for the institution has been that the market changes and the organization must be able to change with it in terms of the products it offers. To prevent mission drift, it is

important for COPEME to keep the social mission in sight at all times to avoid the risk of favoring the interests of clients over beneficiaries, and to establish mitigation strategies to confront this risk.

4.2. CEDAL

4.2.1. Organization Background

CEDAL was founded in April 1977 as an initiative of a group of professionals from different disciplines who were interested in promoting social development through technical assistance and training and through the promotion of labor rights. Over time, the mission of CEDAL has shifted toward general promotion of human rights, above all economic, social and cultural rights. This change in the vision was produced in the early 1990s, in response to the neoliberal reforms implemented by Alberto Fujimori, which weakened the labor movement.

According to Javier Mujica, the director of CEDAL's human rights program, the history of CEDAL can be divided into four phases. The first was between 1977 and 1980 and focused on positioning the organization. The idea was to think outside the traditional box of defense of labor rights, using an integral approach with interdisciplinary teams. CEDAL's comparative advantage was the degree of specialization it had in this area, and the lack of competition faced by the organization. The organization was asked to undertake all kinds of projects, particularly by labor unions.

The second phase, during the 1980s, was characterized by consolidation and development. In 1977, 10 people worked in the organization, while by the middle of the 1980s, the number had grown to about 70 employees. CEDAL's activities consisted of defending unions, which at the time were highly politicized and powerful. It is important to remember that the left-wing was a significant political force in the 1980s in Peru, and thus the decade became a "golden age" for CEDAL.

At the beginning of 1990s, during the third phase of its development, the institution went through a general restructuring. CEDAL reduced its number of employees in a socially responsible manner, with an severance package that included paying indemnization to employees and relocating them to other institutions. As part of this reengineering, the organization redefined its programs and its human resource needs. It began to address labor issues from a human rights perspective. CEDAL's programs now include: Human Rights, Gender and Development, Public Policies, Corporate Social Responsibility and

Local Development. The beneficiaries of these programs are grassroots organizations, CSOs, human rights organizations, and social networks.

Between 1977 and 2005, unlike the majority of NGOs in Peru, CEDAL was organized as a limited liability company: CEDAL SRL. According to Javier Mujica, had the organization set itself up as an NGO, Peru's military government of the 1970s would have created obstacles to its work as a form of repression. CEDAL's mission statement states that it is nonprofit, although the organization is affiliated with all of the chambers of commerce.

In 2005, in order to be able to register with APCI, CEDAL changed its legal status to an ACSFL. In institutional terms, CEDAL has an Assembly made up of 25 members and a Board of Associates with 10 members. The Assembly elects the director, decides which programs to initiate and approves the budget and projects. On principle, there are no successive terms for Assembly members. In this sense the organization is self-governing.

4.2.2. Self-financing Activities

The annual budget of CEDAL in the most recent fiscal period was US\$686,367, and it has a projected budget for 2007 of US\$750,344. In the last fiscal period, 82% of the budget was for program costs, while 18% was spent on administration. CEDAL's leadership views its financial situation as "very good", although they believe it is difficult to secure funds for administrative costs and central operations, since these do not fit within most donors' guidelines. Nevertheless, CEDAL has been careful to avoid depending on one source of financing in particular, and instead has focused on developing a diverse portfolio of funders. Twenty-four people work in the institution: 13 full-time, six part-time and five managers.

The organization's primary self-financing activity is the sale of legal and technical consulting services primarily to labor unions and federations, self-managing enterprises, and cooperatives. The motivation for initiating self-financing activities came from the "necessity of balancing the sources of income, developing the bases of self-sustainability and obtaining greater leeway for autonomy"²⁴. The idea originated in the Human Rights and Corporate Social Responsibility programs, and the objectives of self-financing are to cover administrative costs, cover the costs of other projects, become a more sustainable organization and substitute or reduce the percentage of the budget that comes from international cooperation.

²⁴ Javier Mujica, interviewed on April 4, 2006.

Self-financing activities were initiated with institutional funds and now generate between 5% and 10% of the budget, although CEDAL

would like to increase this percentage to between 11% and 25%. Self-financing activities are internally managed by the permanent staff of the organization, and thus have not implied any substantial changes that would alter the institutional framework. CEDAL didn't carry out planning activities or feasibility studies prior to the launching of self-financing activities or bring in experts during the first phase of implementation. Because self-financing activities are implemented by the institution's staff in the thematic areas where they have expertise, the organization did not invest significant resources to initiate them. Five staff members dedicate themselves part-time to self-financing activities; none of them had any previous business experience. Salaries represent the largest cost of operating self-financing activities. Because there are other institutions with whom CEDAL must compete in the different areas of self-financing in which it works, the organization uses its professional prestige as its principal competitive strategy.

In the 1980s, CEDAL offered technical, legal, economic and accounting services, principally to unions that were engaged in active collective negotiation processes, above all in the mining and telecommunications sectors. During these years, labor rights were extensive and backed by strong unions, and in this context there was a great demand for studies on the occupational structure of businesses and audits to prove possible falsification of profits. Self-governed and cooperative businesses also sought the consultation services of CEDAL. Since CEDAL had a clear commitment to workers and unions, their policy was that "those that can pay, pay, and those that can't pay receive the service free of charge"²⁵. During this "golden age", around 1985, self-financing reached 50% of the organizational budget.

Legal and technical consulting continues to be the principal source of self-financing revenues. A recent example of these services is the case of a lawsuit on behalf of a group of nurses from the Ministry of Health, who sued the Ministry for labor violations. CEDAL won the case and charged a percentage of the settlement. This fee structure is the most widely used in terms of self-financing. The institutional policy is that when a professional brings a case to the office, 40% of the earnings (if the case is won by CEDAL) goes to the office and 60% goes to the professional. If the case arrives directly to the office, 100% of the earnings go to CEDAL.

Another self-financing strategy of the organization revolves around the program of corporate social responsibility (CSR). According to Javier Mujica, a company's CSR program may or may not have a focus on human rights. In general, CSR is understood as "you're good because you donate", but CSR shouldn't be viewed as simply charity, according to CEDAL. All human rights themes are essential, in CEDAL's view,

²⁵ Javier Mujica, interviewed on April 4, 2006.

and the organization propagates CSR focused on specific guidelines which are grounded in institutional human rights norms.

In this area, CEDAL also conducts research and develops and disseminates publications. The organization is positioned to provide businesses with a diverse array of services such as evaluations, corrective plans and employee training. CEDAL participates in the International Bridges Network, with sites in Argentina, Brazil, Holland, Uruguay, Spain, Chile, Mexico and other countries; and the Social Responsibility Network, which matches businesses and CSOs at the local level. In these spaces and through its website, CEDAL has attracted businesses that request their CSR services, including courses to raise awareness and train employees. Also, CEDAL has joined Social Accountability International 8000 and staff members have completed courses and are now accredited to conduct audits of other organizations based on this standard. The organization is currently conducting pre-audits and intends to begin conducting full audits next year. In Peru, not one company has been certified in the SA 8000 norm as of yet. This standard encompasses good labor practices, and verifies and certifies that companies comply with fundamental labor rights, in addition to other equally important aspects such as salaries, work-day length, and occupational health and safety. The SA 8000 is the most important certifiable standard in this field.

The third self-financing activity and the least important for CEDAL in financial terms is the sale of publications, including books and the magazine *Actualidad Económica (Economy Today)*, which promotes “alternative economic thinking”²⁶.

CEDAL believes that so far, its self-financing activities have had a somewhat negative impact on the organization, because it has not yet been able to position itself in the market. However, the organization’s leadership points out that self-financing activities have improved the capacity of the institution to fulfill and expand its mission. CEDAL now has a stronger business orientation, although organization representatives point out that they have not always correctly assumed the risks that self-financing implies. They also believe that CEDAL’s focus on its mission, profit, competitiveness, bureaucratic orientation, entrepreneurial capacity, ethical orientation, financial management, management of human resources and strategic planning have not undergone changes because of self-financing activities. Within CEDAL, the leadership recognizes that these activities are positive, but believes that they require greater internalization among the staff; that is, what is needed for self-financing to succeed is a change in the culture of the organization.

²⁶ Javier Mujica, interviewed on April 4, 2006.

4.3. APROPO

4.3.1. Organization Background

Support for Population Programs (Apoyo a Programas de Población, or APROPO) was founded in 1983 by a group of Peruvian business people who were interested in tackling a taboo subject: family planning. They began by conducting employee workshops at private companies, and over time they began to focus on health services. The idea was to facilitate access to information, products and services related to family planning. The organization has expanded from this one topic and now has a general mission to promote a culture of reproductive freedom. The organization also addresses issues of sexually transmitted diseases and unwanted pregnancies.

Until 1994, APROPO worked on projects funded by international cooperation and also received support from socially responsible Peruvian companies. Among these companies were Milpo (a mining company), Ferrand, Cosapi Inversiones, Aceros Arequipa, INRESA, Avícola San Fernando, and ACE Home Center, among others. However, mining companies were the organization's principal source of support. Companies such as ACE Home Center and Avícola San Fernando continue to support APROPO today.

The organization has two principal lines of work: communications and social marketing. The institution's target audience is sexually active men and women, mothers with minor children and pregnant women, fathers, adolescents, students, teachers, health professionals, and workers and their families throughout the country.

Among the main projects developed by the organization were the Peru 22 project (March 1984 to December 1985), which succeeded in introducing the topic of family planning at 192 workplaces. The Social Marketing of Contraceptives Project (June 1984 to February 1990) managed to break tradition and introduce the discussion of contraceptive methods and family planning, promoting the concept of responsible parenting. Through this project, APROPO established agreements with the public sector and private companies to promote the use of contraceptive methods among low-income people. Between September 1991 and March 1997, APROPO led the Family Planning in the Business Sector project, which promoted the use and availability of modern methods of contraception through private business and succeeded in reversing downward sales trends for some products. As part of this project, the organization produced a brochure titled "The ABCs of Contraception", a record 1.6 million copies of which were distributed in 80% of the pharmacies in the country. In addition, a

²⁷ See www.apropo-ong.com.

family planning communications strategy implemented by APROPO reached more than 70% of the population and helped increase the number of people seeking medical services from the Health Ministry²⁷.

In 1993, APROPO started the Telephone Counseling Service project (still in existence), which responds to the concerns of men and women in Lima and other provinces regarding topics of sexuality, contraception and reproductive health. This service has registered nearly 300,000 consultations, mostly with women between the ages of 15 and 24. In October 2002, the “Social Marketing for the Prevention of Sexually Transmitted Diseases (STDs) and Unwanted Pregnancies” campaign began (continued through October 2004), in cooperation with Cayetano Heredia University of Peru. This project strengthened the private distribution channels of sexual and reproductive health services and products for the prevention of STDs and unwanted pregnancies. The emphasis of the social marketing effort was placed on encouraging the use of condoms and contraceptive methods by youth in 10 cities in Peru, as well as on the treatment and prevention of STDs.

Between June 2003 and December 2004 APROPO ran the “Integral Communication for a Healthy Citizenry” project, facilitating the design and implementation of a focused and integrated strategy for citizen health, contributing to the achievement of the objectives of the Regional Coordinated Health Plan in the Huánuco region. This project developed activities to involve citizens and circulate information locally and nationally among public agencies, civil society, opinion leaders and community leaders. Finally, the project entitled “Promoting Ensured Availability of Contraceptive Methods in the Private Sector” (September 2004 to August 2005) was designed to increase the use of quality contraceptive methods by making them available at low prices through various distribution channels in Piura, Chiclayo, Trujillo, Pucallpa, Huancayo, Ica, Cusco, Juliaca, Arequipa and Lima. The goal of this project was to redirect some of the demand for contraceptives met by the Health Ministry toward the private sector to allow state resources to be concentrated on people living in extreme poverty²⁸.

4.3.2. Self-financing Activities

APROPO is one of the few examples of nonprofit civil associations that have reached a level of self-financing that sustains the institution. In the words of APROPO’s General Manager, Carola de Luque, the donations the organization receives enable it to increase the number of beneficiaries, but its core funding comes from self-financing. Injections of project funding allow APROPO to meet more ambitious goals.

²⁸ From <http://www.apropo-ong.com/>.

The organization's principal partner has been USAID, which had funded certain projects in the Health Ministry and joined with APROPO to support sexuality workshops for Ministry workers and to implement local and national campaigns. APROPO's expertise is also sought out for public policy design and trainings provided to private organizations. Because APROPO's projects with USAID and international cooperation agencies in general are coming to an end, the percentage of the organization's budget that comes from self-financing is rising.

According to APROPO'S 2004 Annual Report, income from sales in 2004 were US\$1,165,176 and the cost of sales was US\$576,186, resulting in a profit of US\$588,990. Income from cooperation agencies in 2004 totaled US\$979,543 and expenditures not related to sales were US\$1,404,261. According to these figures, in 2004, 54% of APROPO's income was derived from self-financing activities. The 2005 Annual Report shows similar results. Income from sales increased to US\$1,313,809 and the cost of sales was US\$457,634, for an operational profit of US\$856,175, significantly higher than 2004. Income for international cooperation projects reached US\$872,248 and costs not related to sales were US\$1,657,299. According to these figures, in 2005, 60% of the budget came from APROPO's sales.

The first ideas about self-financing of the organization surfaced in 1990, when APROPO's leadership reached the conclusion that the organization needed to reduce its dependence on international cooperation. It had become vitally important to maintain the continuity of its mission-related projects, yet financing through cooperation did not allow the organization to sustain its programs over time. In 1993, the organization's leadership decided to begin marketing its first line of condoms, Piel Condoms, under the Condoms Plan project. This activity has been ongoing since then. Piel Condoms were introduced to the market in June 1994 during the Soccer World Cup, and the objective was to promote the exercise of responsible sexuality, as well as contribute to the economic sustainability of the organization. As a result of this project, the use of condoms in Peru increased and the pharmaceutical industry widened their production and distribution. Piel Condoms established itself as the best recognized brand, helping to promote the sustainability of the institution²⁹.

Since then, APROPO has expanded its array of products, and in 2005 the organization sold more than 8 million condoms. As the organization's web site states:

The social marketing of contraceptives has been central to APROPO projects and enables the organization to sustain itself. Its

²⁹ See www.apropo-ong.com.

fundamental objective is to supply the local market with high-quality products at reasonable prices utilizing existing distribution channels. For this, it has a line of complementary products that satisfy varied demands: two condom brands (Piel and OK), a pregnancy test available in two versions (DETECTOR), a “Copper T” intra-uterine device (IUD) called APRO-T, and an ovulation vaginal contraceptive called Perla Gel.

APROPO has signed agreements with laboratories to market birth control pills and injectable contraceptives. The organization also systematically ensures that all pharmacies provide information on family planning and safe sex as well as products. In contrast to INPARES (another institution with a similar mission related to reproductive health), APROPO does not offer medical services, but rather promotes a culture; its activities are focused on social marketing. Nonetheless, both organizations share an overall goal of promoting safe sexual and reproductive practices.

Another source of income for APROPO is the trainings it conducts at institutions and universities on issues of safe sex and family planning, as well as trainings for pharmacy employees. In this sense, part of the organization’s mission is to improve the information available to all stakeholders on issues of sexuality. As part of this, APROPO has formed partnerships with universities, large distributors, pharmacy chains, regional governments and mass media outlets.

APROPO represents a successful case in terms of self-financing. The impacts of self-financing on the organization, which specializes in areas dedicated to marketing, sales, and finance, are noteworthy. In spite of being officially registered as a nonprofit civil association, APROPO functions in many ways like a business, and its leaders point out that the only benefit of being an NGO is the potential to receive support from international cooperation agencies. APROPO is not exempt from paying any taxes. This is the clearest case of what is known as a hybrid institution, capable of uniting the philosophy and practice of its mission with its participation in the market (Davis, Etchart, et.al. 2003). As the organization points out in its 2004 Annual Report, APROPO hopes to move on “from a culture of asking to one of generating capacities and resources”.

4.4. Tarea Educativa and Tarea Grafica

4.4.1. Organization Background

The case of Tarea is a particular one in that its principal source of self-financing – a print shop – grew to the point that it separated from the

CSO that created it and became an independent organization. Tarea is similar to CEDAL, in that both organizations reached their peak in the 1980s due to the favorable political context for the left-wing in Peru, and the subsequent decline of the left directly affected their institutional activities.

The Tarea Association of Educational Publications (Tarea Asociación de Publicaciones Educativas) was founded in 1974 to publish and distribute educational materials, edit texts and perform other communications activities. At the same time, the organization founded a printing shop for its publications. Tarea grew out of the popular education movement, associated with the liberation pedagogy philosophy of Brazilian educator Paulo Freire, which sought to raise awareness about the living conditions of poor people. The popular education movement broke from traditional communism, adopting a perspective of the Christian left-wing associated with liberation theology³⁰.

Over time, the printing activities grew and the graphics and educational areas of the organization began to conflict with each other. In the words of Manuel Iguíñiz of Tarea Educativa, “they didn’t understand each other, [since they] had different styles”. According to Luis Carranza of Tarea Grafica, there were disagreements about the very concept of the institution because the graphics team was seen by the education team as auxiliary. But the printing house grew, and “the situation couldn’t continue”. In 1986, the organization was divided into two parts, and in 1988 they signed an “Act of Institutional Division” and created the Tarea Educational Graphics Association (the printing house), while the CSO kept the original name. The two entities maintain a business relationship – Tarea Gráfica prints the majority of the Tarea Educativa’s publications – but there is no special connection between the two organizations beyond that.

Tarea Educativa continued to work on its issues of education policy, rural education and school texts, while Tarea Grafica fully entered the market, although principally for the printing of educational texts. Tarea Grafica was founded as a nonprofit organization, although in practice it functions as a cooperative with rotating management positions. However, its ownership is not shared among the members; upon liquidation, the ownership of Tarea Grafica would pass to another CSO; it could not be divided among the associates.

4.4.2. Self-financing Activities

According to Manuel Iguíñiz, Tarea Educativa has always been financially dependent on international cooperation, as self-financing in the educational field is rare. The organization has reached its highest levels of self-financing through winning state contracts, principally in the 1990s. Tarea Educativa contracts with the state to

³⁰ Tarea was identified politically with the Revolutionary Communist Party (PCR), generally known as the party of “Christian leftists” since the 1970s.

produce school texts and provide teacher trainings, and consulting services, among other activities. But without such contracts, Tarea Educativa's income from self-financing is generated only by sales of publications and short-term consultancies, which represent a low percentage of the overall budget.

In the 2005 fiscal year, Tarea Educativa had a budget of US\$747,488. That year, 85% of the budget came from donations, while 11% came from fees for services and 4% from the sale of educational publications. In 2004, these percentages were: 80% from donations, 10% from services fees and 10% from publications. For 2006, the organization was projecting a slight shift, with 75% of income from donations, 15% from fees for services and 10% from product sales. The organization's financial situation is evaluated by Tarea Educativa's leadership as "very good."

At Tarea Educativa, the greatest financial challenge is obtaining funding for operational funding, since international cooperation only provides resources for projects. In this context, what motivated Tarea to begin self-financing activities was the need to strengthen the sustainability of the organization. Self-financing activities were initiated in the 1970s, when the CSO and the printing house were one organization. In 1985, Tarea Educativa began selling educational publications and in 1994, the organization began charging fees for its services. The organization chose these self-financing strategies because the leadership felt they contributed to the goals of the organization.

Tarea Educativa's desire to generate its own income has always been supported by its beneficiaries, members, management, donors and staff. The organization did not carry out feasibility studies before undertaking its self-financing strategies. Self-financing activities are managed internally by the permanent staff of the organization. Nevertheless, for the sale of publications, the leadership reports having had some initial problems with distribution and payment collection, largely because none of the staff members had prior experience with business procedures.

Tarea promotes its self-financing activities by participating in fairs and through national and international contracts, as well as by responding to individual requests. Because other organizations offer similar services, Tarea must compete with them for clients, using its prestige, position and experience in the educational field as a comparative advantage. The organization projects that its income will be steady in 2007 and begin to grow over the following three years. Tarea Educativa's leadership points out that self-financing has had positive effects on the mission of the organization, allowing it to develop and strengthen its programs. Nevertheless, self-financing activities don't

guide the institutional purpose of the CSO; Tarea Educativa is not a hybrid entity. While its efforts to self-finance are systematic, self-financing does not have determinant effects on the mission or the budget of the organization. Instead, it serves to support the programs it develops.

The case of Tarea Grafica is quite different. The organization's income is generated from the editing of books and graphic and editorial services; basically, Tarea Grafica prints educational texts and also conducts trainings in graphics. The organization is 100% self-sufficient although it is important to note that in spite of having a social mission – promoting quality education – Tarea Grafica does not invest in social development projects. The organization functions primarily as a socially responsible business.

In summary, it is unfortunate that the two organizations have separated, since remaining together would have provided a revenue stream for the CSO. Nevertheless, staying together became unfeasible due to differences in ideas about what the organization and what the balance between mission and profit should be.

4.5. Volunteers for Life (Voluntarios por la Vida)

4.5.1. Organization Background

Volunteers for Life is a nonprofit civil association whose mission is to “Promote an entrepreneurial vision in civil society organizations, creating social enterprises based on volunteer work that guarantees their sustainability.”³¹ According to representatives of Volunteers, there are two principal reasons why the organization was founded: first, to address the scarcity of financial resources available to the social sector, and second, to address the difficulty the corporate sector has in finding the best way to generate social impacts. The vision of the organization is “To be the best source of promotion and fund-generation for CSOs in Peru, implementing socially responsible enterprises in the country's principal cities and setting up two franchises outside Peru by 2008.”

The founding of Volunteers was atypical in that it occurred after its first social enterprise activity, Volunteers' Pub, had begun operations. The pub was opened in October 2004 by a group of business professionals, who then formed the nonprofit association a few months later. The pub is now the principal source of financing for Volunteers.

Volunteers does not own the building where the pub operates, but instead rents the space. Furthermore, Volunteers does not have the

³¹ From the Volunteers for Life business plan.

license required by the district of Miraflores to operate a pub. According to Euding Maeshiro, founder and executive director of Volunteers, because Miraflores is not issuing any new licenses, the organization had to purchase the existing license from the bar's previous occupant, NUDES Investments. The pub functions like any other and pays all applicable taxes, although the organization hopes that by 2007 it will be exempted from paying income tax after making the necessary change to its legal status.

The idea of starting the business was born out of leadership trainings organized by the company Life Symphony, which is also owned by Maeshiro. Among the objectives of these workshops, according to Ignacio Ballén, manager of Volunteers, was "for each person to take responsibility for what happens in society." As part of these workshops, Maeshiro and other well-known professionals from different areas decided to host parties to aid various social causes. After organizing several parties, they decided it would be better to open the pub. Initially, apart from the Volunteers Pub, the organization had a club in the Barranco district, which went out of business.

The social mission of Volunteers – to support the enterprise activities of CSOs – is developed in the following manner: First, Volunteers selects the CSO, principally through the Life Symphony leadership trainings, and then assigns that organization a date on which to bring staff members to work in the pub (usually one or more nights). The pub's profits are then distributed among the organizations that have provided volunteers during the past month. According to the Volunteers business plan:

Volunteers Pub is a restaurant/pub located in the Miraflores district. The pub donates 100% of its profits, proportionally, among those CSOs and aid societies that have worked as volunteers in the pub for at least one night of the month and that demonstrate good use of the funds that are given to them. The dates for the volunteering are assigned by a raffle system.

Volunteers aims to position itself as a link between social organizations and the business sector. The help that it offers is diverse; it has worked with the Special Olympics, groups of adolescent mothers, and provided assistance to high schools, among others. Volunteers mostly finances small organizations that develop out of the leadership workshops. Usually, each cohort of these workshops develops an action plan and functions as an organization; the principal requirement for each organization is that they develop a structured plan for the social impact that it hopes to have. Volunteers is the ideal connection; the organizations work in the pub, then receive funding and, as expected, provide reports on what they will do with the money. It is important to

note that funds received through Volunteers are not exclusively reserved for projects that have arisen out of the leadership workshops.

Volunteers now has plans to work with larger organizations, because according to its leadership, the profits from one or two days of pub operations are not enough to promote the sustainability of organizations. In the future, the organization would like to unite four or five organizations for the month so that each obtains more funds and can carry out better projects.

In 2005, Volunteers was the winner of the Ashoka competition, which funds innovative funding strategies. In the competition, 30 business plans are selected. After three months of training for the selected organizations, three winners are chosen and awarded 35,000 soles (approximately US\$10,000) to start a venture. Volunteers is also in the process of implementing an alliance with INTECI, an institute that offers culinary, barman and hotel administration training. Through the alliance, Volunteers is providing INTECI students with internship opportunities at the pub.

4.5.2. Self-financing Activities

In 2005, Voluntarios por la Vida received US\$3,500 in income from international sources (prizes) and earned US\$4,800 from its social enterprises, for a total of US\$8,300. Project expenditures were US\$3,500 and administrative costs (general manager, rent, maintenance, electricity, communications, and other operating expenses) were US\$4,800. The projected budget for 2006 is higher, with US\$7,000 in international sources (the remainder of the prize won in 2005) and US\$7,775 in self-financing income for a total of US\$14,775. Projected project expenditures are US\$7,000, while administrative expenditures will rise to US\$7,775, for a total of US\$14,775. Based on these financial results, Volunteers is covering its administrative costs through its self-financing activities.

Apart from donating funds, Volunteers' pub functions like any other. The organization has signed an agreement to only sell Backus beer, and in exchange Backus provides them a certain quantity of beer free of charge as well as US\$12,000 in cash. Generally, Volunteers make agreements with sponsors: liquor company Chivas put in the bar, and cigarette companies have installed other fixtures in the pub. This is similar to the way that many bars operate. In 2005 sales from the bar totaled US\$114,401, which is expected to rise to US\$200,000 in 2006.

The chart on the following page is a breakdown of the pub's expenditures and profits:

	2006 (projected, US\$)	2005 (US\$)	2004 (US\$)
Income from sales (US\$)	200,000	114,401	26,725
Expenditures (US\$)			
Social enterprise: "Voluntarios Pub"			
Fixed costs	32,653	26,259	5,541
Payroll	31,781	14,305	4,404
Costs	66,104	37,812	8,614
Investments in the facility	7,300	7,300	3,466
Financing of assets*	0	9,000	3,000
TOTAL	137,838	94,946	25,025
Gross profit	62,162	19,455	1,700
Income tax (2004=2.5% 2005=30%)**	18,649	5,837	42
Volunteers for Life - donation	7,775	4,800	1,657
SHARED PROFITS	35,738	8,818	1,657

*The organization paid \$1,000 per month to purchase the assets of the facility, including the operating license.

**During 2004, the organization filed taxes under the name of one of its founders. In 2005, once the association had been created, the organization paid income tax of 30% and is seeking tax-exempt status from the state for 2007.

The "shared profits" category corresponds to the portion of income that is donated to the organizations whose staff members work one or more nights in the pub.

The target market of Volunteers' pub is comprised of three segments: middle and upper-income adults, university students and tourists. The permanent staff of the pub consists of a disc jockey, a bartender, a cleaning assistant, a kitchen manager and an administrator. All of these employees belong to the third category; that is, they work for an honorarium rather than fixed wages, although these are permanent jobs. Given the instability of Peru's labor environment and the weakness of worker rights, this is common practice in the country. Volunteer's leadership does not question this practice, nor does it question the fact that its income is derived from the sale of alcohol and cigarettes.

Apart from the pub, Volunteers has plans to market a brand of bottled water, "Volunteers Water" (Agua Voluntarios), despite a potentially low profit margin. Volunteers will donate 90% of its profits from water

sales to the organization CENCA for the ECODESS water and sanitation project. The organization also has plans to open a bakery, an internet café, a gym and a hotel, all with the same operational methods as the pub. Currently, Volunteers for Life is in the midst of opening its first internet café with an educational center for children with special needs, “Manos Especiales” (Special Hands). According to Volunteers, neither the bottled water business or the internet café has required outside investment, thanks to the alliances it has forged with various businesses.

According to the founders, an important lesson based on the organization’s self-financing experience to date is that in the future each social enterprise will be developed in conjunction with the CSOs that will ultimately receive the income to be generated. And at some point, the management of the enterprise and all of its earnings will be transferred to that organization. This strategy will allow each organization to develop the enterprise capacity of CSOs. At the moment, the transfer of profits from Volunteers’ pub to the organizations of the Life Symphony workshops is more characteristic of a donation and does not necessarily contribute to the financial sustainability of these organizations.

4.6. DESCO

4.6.1. Organization Background

Founded in 1965, the mission of the Center for the Study and Promotion of Development (Centro de Estudios y Promoción del Desarrollo, or DESCO) is to promote alternative development of popular sectors in order to improve their quality of life. The organization works in four thematic areas: poverty and social inequality; development and local management; institutional partnerships and exercise of citizenship; and the management of natural and productive resources. Its activities are diverse, and include training, technical assistance, consulting, productive infrastructure, research, and political activism. DESCO works in seven provinces in Peru: Ancash, Arequipa, Ayacucho, Huancavelica, Junín, Puno and Lima. Its headquarters are in Lima and it has branches in the other provinces³².

DESCO is one of the oldest, largest and most traditional NGOs in the country. Until the 1990s, it received a large percentage of its funding from international aid organizations. Nevertheless, as a result of the neoliberal adjustments at the beginning of that decade, the situation changed for DESCO and its budget was drastically reduced. In 1995, DESCO’s management realized that this critical situation required a

³² www.desco.org.pe

profound review of the organization and a reorientation of its principal activities, beginning with an internal discussion to initiate the process of change.

DESCO undertook the task of institutional change with technical support from a consulting firm staffed by experts in institutional reengineering. The consulting firm determined, among other things, that one of the principal obstacles for institutional change was precisely the communal spirit of the CSO. Another obstacle was the marked divisions between DESCO's programs. The lack of integration between different departments is common among nonprofit organizations in Peru (Asociación Certum, 2005).

Between 1996 and 2001, DESCO began a gradual process of internal change, concentrating on four fundamental elements: impact, financing, projects and themes. Financial sustainability was only part of the strategy of institutional reengineering and not a key goal of institutional transformation. The evaluation determined that the organization should mobilize resources in two areas: raising new public and private funds and income-generation through various market strategies (Asociación Certum, 2005). Thus began DESCO's self-financing activities.

4.6.2. Self-financing Activities

DESCO has initiated a variety of self-financing strategies, including providing consulting services, information, and technical assistance; creating an EDPYME; building networks and strategic alliances with entities of the private sector; and finally, launching two private companies, one to provide housing credit and technical assistance and the other to produce and market alpaca meat. Unfortunately, neither company, both of which were founded as enterprises with social goals, has succeeded. In the words of Eduardo Ballón, formerly the director of the organization, the enterprises failed because of the difficulty the organization encountered in adopting a business-oriented logic. The staff of DESCO does not have the specific skills and training required to manage a business.

One strategy for generating income that has functioned relatively well for the organization has been the creation of DESCO Consulting. In this case, the prestige and position of the organization gave it a comparative advantage in this field. According the organization's web site³³:

The consulting activities have been developed with two differentiated approaches: first, an approach linked to the NGO environment and development aid agencies – in general, pre-and

³³ www.desco.org.pe

post-project evaluations – and a second approach, developed in the mid-1990s, to provide services (evaluations, surveys, systematizations, studies, etc.) that are carried out for a diverse group of clients, which has enabled us to expand our relationships with other institutions: the state, mining companies, development NGOs and bilateral and multilateral cooperation agencies.

It should be noted that DESCO is a special case because of its history and size, and in this sense it is a case that can not be applied to the rest of the CSOs in Peru.

4.7. Minga Perú

4.7.1. Organization Background

Minga is a nonprofit association founded in 1998 to promote social justice and human dignity through better health conditions, equality, and the sustainable management of natural resources. Its mission is to work for conditions in which women and their families in rural communities of the Amazon have access to quality health care and education. The Amazon is the largest, poorest and most diverse region in Peru, and lacks adequate services in these areas. The vision of the organization is to contribute to developing an Amazon region where the rights of women are respected, to make available information that can improve and save the lives of women, and to utilize intercultural communication as a tool for social change.

Minga has three principal programs: “Welcome Health” (Bienvenida Salud), a radio program; the Community Leadership and Enterprise Program; and the Corporate Social Responsibility Program. “Welcome Health” is a 30-minute program that has aired three times a week for the past six years, transmitting messages about human rights, reproductive and preventive health, gender equality, and the management of natural resources. The program uses a strategy that combines education and entertainment, which is a basis for the development of the Leadership and Enterprise programs as well.

The Welcome Health radio program is also aired in other venues such as schools and women’s groups. It features a radio soap opera about the life of “Pasionaria”, a courageous peasant woman who struggles for a more just life for herself, her family and her community. “Welcome Health” is produced in Iquitos (Loreto) with high-tech recording equipment that belongs to Minga. The radio show emits at a frequency of 850 megahertz, has 40,000 listeners throughout the region of Loreto, and Minga has received more than 5,000 letters from listeners with questions, suggestions and complaints of abuses which are then passed to the Ombudsman’s

³⁴ See www.mingaperu.org

office and other state agencies³⁴.

One of the impacts of “Welcome Health” has been the formation of the Women’s Network of Marañón, which brings together 500 women leaders from the Marañón and El Tigre river basins. Every three months, the community promoters who belong to the network travel to the Tambo Minga Training Center where, as part of Minga’s Community Leadership and Enterprise Program, they learn about reproductive health, motherhood and infancy, and gender equality through a participatory methodology and constructivist focus (based on their interactions with each other and with the environment they live in). They also learn techniques for agro-forestry, fishery, weaving, dressmaking, carpentry and basic accounting. The promoters develop income-generating and natural-resource-management projects that allow them to take better care of their health and the health of their children, and empower them to manage procedures with the state agriculture, education and health systems. On their farms, they are recovering traditional indigenous techniques for the development of products which they can sell, reducing the pressure on the forest and generating income for their livelihood. The fish farms they operate provide an alternative for the families’ nutritional security and for earning income through raising native species of fish. Medicinal plant gardens help them to recover traditional knowledge of health, particularly women’s reproductive health³⁵.

The Corporate Social Responsibility program forms strategic alliances with private companies to encourage them to invest in development initiatives in the Amazon. Also, Minga has an agreement with the Private University of Iquitos to exchange the use of Minga’s recording studio for full scholarships for staff of the CSO to pursue studies at the university.

4.7.2. Self-financing Activities

The annual institutional budget of Minga is US\$250,000 and last year income from self-financing activities was US\$2,500, or 1%. Nevertheless, the organization’s leaders point out that they are systematically exploring possible strategies for self-financing. One option they are considering is promoting cultural tourism at the training center Minga operates in the Amazon. The problem, however, is that the land where the training center is located was donated by the municipality for educational purposes, and thus the organization must be careful about how it is used. Also, the community producers from the Leadership and Enterprise Program who are trained in reproductive health and leadership would like to develop their own self-financing projects, and have already started implementing a plan to market the artisan goods that they make. Minga helped train the

³⁵ See www.mingaperu.org

women in artisanry techniques, and in some cases, women from one community trained women from other communities, contributing to cultural exchange between the various ethnic groups of the region. This strategy of self-financing is still in the start-up stage, but the organization has designated a staff member, Rafael Elías, to lead self-financing activities.

Minga was a finalist in the 2005 Ashoka resource mobilization program (with a business plan developed by Rafael Elías). For the competition Minga presented a proposal to create “Casa Minga” where the organization would aggregate all of its resources: volunteers, offices, the radio program and a store selling artisan goods. The organization planned to generate income in the following ways: provide music and audio recording services in its studio (although this is not possible yet, because the organization lacks adequate legal status for marketing the studio services); sales of artisan goods to finance the training workshops; and a volunteer program with Peruvian and foreign volunteers who would train the Minga team and rural women leaders. The organization has created a slogan for the store: “Buy a story, change a life: a store with handicrafts made by women leaders to empower more women.” The idea is that the store will provide a place where local community leaders would share their experiences with tourists who are seeking an in-depth and authentic understanding of life in the jungle. This enterprise would require that Minga form strategic alliances with tourism operators, and would enable the organization to finance more training workshops.

Although Minga did not win the Ashoka competition (Volunteers for Life was the winner), the organization has obtained some resources to support its self-financing activities. The Moriah Fund granted US\$7,195 for three two-day trainings of 50 women on how to make the artisanal products; the American Jewish World Service donated US\$2,056 for operational costs; and the Toulouse-Lautrec Institute, a Peruvian design school, provided volunteer interior design services for the store. Ketan Chitnis, Ph.D., a marketing specialist at Louisiana State University, contributed the texts in English that will accompany the artisan goods.

The company Global Goods has helped Minga by buying its products, which are sold primarily in New York. The Rainforest Foundation, the organization founded by the musician Sting, bought 500 handbags. The money earned is distributed among the artisans and profits from the project are used to support workshops for the same promoters. Product sales last year totaled US\$9,000, of which US\$2,500 covered the cost of trainings and project oversight by Minga.

Minga Peru is still in the early stages of its self-financing activities. In addition to the resources required for launching these activities, founder Eliana Elías emphasizes the need for greater internal capacity to implement its business plan and manage these activities.

4.8. Environmental Enterprise Group (Grupo de Emprendimientos Ambientales, or GEA)

4.8.1. Organization Background

The Environmental Consultancy Office (Oficina de Asesoría y Consultoría Ambiental, or OACA), now known as GEA, was created in 1992 as a nonprofit organization dedicated to health and environmental activities. Three partners with CSO experience founded this organization after identifying a niche in environmental sanitation and protection issues and later added conservation, development and self-management to the list of areas in which the organization would specialize.

The organization has an assembly comprised of seven full members and three youth members. The Board of Directors includes a president and four members, one of whom is the executive director. The institutional team is made up of 11 professionals and six administrative officers. GEA also works with 24 national and international collaborators.

GEA's mission is to promote sustainability in Peru through the development of economic, environmental and social capital, and its vision is to lead innovative, integrated projects that promote equitable relationships between society, the economy and the environment. The organization works in three areas to fulfill its mission: 1) environmental engineering and management; 2) economic development; and 3) communities, education, participation and culture.

Because many international cooperation agencies reduced financing for CSOs' operational expenses in the 1990s, GEA adopted a self-sustaining approach from its early days, first by selling consultancy services and later through the creation of an independent enterprise. Today, GEA manages integrated sustainable development programs that are markedly different from conventional government intervention plans. The organization operates programs in association with or supported by other CSOs, government entities, private businesses, and civil society. The most notable of its programs include: Green Valley (Valle Verde, in Lurin and Pachacámac in Lima province) for the conservation and development of the Lurín river

basin and promotion of civil society self-management; Revive the Rimac (Revivir el Rímac, in the upper Rimac river basin in Lima province), providing local capacity-building for conservation and recuperation of the river; and Pro-Chili (in the upper Chili river basin, in Arequipa province) to train leaders and local governments to integrate the Chili river into the Arequipa metropolitan area.

4.8.2. Self-financing Activities

From its beginning, GEA has provided services and consulting directly related to its programs. It later created an independent enterprise, ECOLAB, that also transfers economic resources and enterprise management knowledge to the nonprofit organization. ECOLAB serves as a link between GEA and the private financial system, for example, for bidding on projects financed with Peruvian state funds.

GEA's primary motivation for self-financing was to develop its social mission by generating new resources to finance its programs and operational costs and to provide mission-related services and reach new clients.

The organization's leadership believes that it has sufficient funds to sustain its primary activities. Its total budget for 2006 was US\$263,000. Of this, 52% came from international sources, 33% from services (consultancies), 10% from the public sector, and 3% from donations from Peruvian businesses. However, GEA feels that it can improve financing for current and future activities. The greatest obstacle is covering overhead costs and basic operating expenses, as well as legal and other fees, which together represent on average 10% of organizational expenses. For GEA, such expenses are necessary and international cooperation generally does not finance them. Covering these costs was and continues to be one of the major motivations behind self-financing.

In terms of consultancies, GEA provides environmental services and is one of the top five consultants in Peru in the environmental area. It specifically works in environmental management and planning, cultural and experiential tourism, environmental education, cultural heritage, environmental engineering and sanitation, social and business participation, environmental communication, and agricultural development. It provides services to the Peruvian state and to private businesses in different parts of the country and has formed alliances with multilateral organisms.

ECOLAB was created as a private enterprise in 1995, with two objectives. The first objective is to generate economic resources to support the institutional sustainability for GEA, and the second is

technical and scientific development of human resources on environmental issues. The organization's main challenge was professionalizing its services to attract clients from the private sector, where potential clients are more receptive to hiring a private company than a CSO for these types of services. Therefore, the enterprise conducts environmental impact analyses for its clients, which are mostly industrial, petroleum, electricity, and mining companies. Today, ECOLAB has 35 full-time employees, and since its creation has carried out 300 environmental monitoring programs, 500 technical inspections and 140,000 environmental sample analyses.

The economic benefits of these self-financing activities have been substantial. Services and consultancies provided by GEA generated income of US\$88,550 in 2006, or 35% of all revenue for the CSO. These revenues have grown as the organization accumulates experience and contacts, and as demand for environmental conservation-related services has risen.

According to the Executive Director, Anna Zucchetti, one impact of self-financing has been the organization's ability to expand its client portfolio to the private sector, strengthening the institutional image of the CSO through services and consultancies. While growth of its client base is a key goal, the organization has a requirement that any program or service it undertakes must be guided by environmental conservation and protection objectives.

Although GEA's financial situation is improving year by year, it is still not considered financially stable by its leadership. It has been difficult for GEA to generate resources to cover its administrative costs and more than 50% of its income still comes from international cooperation agencies. Moreover, the organization faces additional funding challenges, such as improving cash flow, and it is assessing new strategies for more efficient management of its self-financing activities.

ECOLAB reached a break-even point five or six years after its creation. Until 2006, all revenue (with the exception of the amount transferred to GEA) was reinvested internally. In 2007, for the first time profits were distributed among the partners. ECOLAB sets aside about US\$20,000 in profits for GEA per year. This gives the CSO some flexibility in its budget and is used to offset expenses that are not financed by cooperation funds. Another portion of the profits are used to pay GEA board salaries. However, the contribution from ECOLAB is not significant to GEA's overall annual budget. Therefore, rather than a financial contribution, the board is studying the possibility of purchasing property and allocating space for GEA to conduct its activities. This would reduce the organization's operational expenses by eliminating monthly rental payments.

The founding members believe that ECOLAB has contributed to the development of GEA's social mission, as it develops and provides services that the organization itself does not provide and thus reaches a different client group. A positive effect of the complementary services offered by both organizations in the environmental area is the creation of synergies in projects, which often allow the founding members to mobilize resources that benefit both organizations.

One of the most important learning experiences for GEA has been the creation of an enterprise providing services to new clients. Although this has been a successful experience for the organization in financial terms, GEA needs to reevaluate its relationship with ECOLAB. The company's impact on the sustainability of the CSO is not very clear, because specific goals – financial and mission-related – were never set when ECOLAB was founded and no formal relationship was structured between the two. Therefore, the challenge is to create a closer relationship between the two entities and develop a well-planned management system for sharing resources, investments, and staff based on common strategies and goals. This will prevent the diversion of human resources towards the company and develop a more strategic and transparent decision-making process for management of the organization's finances.

A new challenge facing GEA is its founders' recent creation of a company known as Zero Waste (Zero Residuos). This situation has generated questions among the staff about the relationship between the new enterprise and the CSO. As of now, the organization is leaning towards making Zero Waste fully independent from GEA, but with a social responsibility policy that designates a portion of its profits to GEA. In terms of time, the management team must be careful to ensure that enough staff time is allocated to both the CSO and the business for the many tasks that each require. In addition, the organization is assessing the possibility of incorporating new partners for both GEA and its associated enterprises in order to provide a more business-oriented vision and knowledge and improve efficiency and management.

The main risk of creating enterprises that are independent from GEA is that important social and environmental areas may be ignored or overlooked. However, as is the case with the CSO, if the founders and their team plan ahead and identify goals and risks, there is a greater likelihood of effectively incorporating this social vision into the company objectives and achieving the desired impacts.

4.9. Association of Rural Education Services

4.9.1. Organization Background

The Association of Rural Educational Services (Asociación de Servicios Educativos Rurales, or SER) was founded by a group of Peruvian professionals seeking to support the rights and rural development efforts of the organized Andean and Amazonian populations. It was registered with the Public Registry as a nonprofit association in 1980.

The mission of SER is to contribute through capacity-building to the exercise of citizenship and the construction of a democratic state, the strengthening of institutions, and improvement of living conditions. The organization's vision is based on the need for promoting autonomy and freedom of all people and a society based on equity and tolerance. Its two main areas of work are: 1) decentralization and democratic governance; and 2) water and sanitation. One of its principal strategies involves establishing alliances between citizens, local governments and other organizations at the local, regional and national levels, as well as forming networks with other civil society organizations.

In 1992 and 1993, SER underwent an institutional crisis after some of its most important programs ended. This situation resulted in the loss of several members of the team, which also implied a serious cost to the organization. But by the beginning of this decade, the organization was experiencing growth once again, for two reasons: 1) SER's specialization and focus on two issues – democracy, and water and sanitation – which took on importance in both the national agenda and for international cooperation agencies; and 2) the SER team wanted to take advantage of this window of opportunity to meet the needs of rural areas. This change also came about as a consulting market was emerging in these areas.

Between 1997 and 2004, SER expanded its geographic reach, opening three offices in different parts of the country to incorporate the development of local projects. In Ayacucho, its efforts were focused on the communities affected by the internal armed conflict with the Shining Path (Sendero Luminoso). The Cajamarca office was created to facilitate dialogue between rural social leaders, business people, and regional politicians on mining³⁶. The Puno office was established after the development of a serious social conflict in the region in April 2004. These offices are staffed by locals, and their presence in the regions also serves to open the doors to work on new issues and project opportunities.

The organization has a total of 104 members, including 70 full-time

³⁶ Today SER works with other institutions on the participative budget process in this region to maximize the benefits of resources from mining royalties for the local population.

staff members, 30 part-time employees and four board members. The organization is directed by the Member Assembly, which approves the annual statements, work plans, and budgets.

4.9.2. Self-financing Activities

For its first 15 years, SER's only source of income was international cooperation funds³⁷. In 1996, the organization began to develop its self-financing activities, specifically sanitation consultancies, at the request of sectors of the Catholic Church, which had worked with SER in different parts of the country (Nazca and Pucallpa). Over the last three years, SER's annual budget has averaged US\$380,000, of which 90% is directly invested in programs and activities and the remaining 10% covers overhead expenses.

Once SER had identified a market for consultancies, the organization began to offer services in sanitation and democratic governance. Although SER did not do any pre-planning of self-financing potential of these services, the organization saw an opportunity to generate more flexible resources that would strengthen its institutional mission and allow it to cover its overhead expenses, increase the salaries of its professionals, and contribute to the organization as a whole.

The decision to initiate self-financing activities has not been easy. The process required internal discussions between two generations of team members. Some members, especially the longstanding ones, were not supportive of shifting the organization's thematic concentration, as it implied abandoning issues and stakeholders that the organization had been working with since its beginning. To address this concern, it was critical that the organization establish initial self-financing goals; if these were not met in the first year, consulting services would be dropped. The revenue target was initially set at 5% of the total annual budget. From 1996 to 2004, between 5% and 7% of the organization's financial resources have come from self-financing activities; in 2004, this percentage increased to 20%, and the current percentage is 27%.

Part of SER's income from self-financing is set aside for overhead expenses, and the rest is used for activities not contemplated in programs, such as publications, small presentations, and staff training trips. The organization's leadership believes that it has enough funds today to sustain its principal activities and the organization does not face serious financial difficulties. Its economic situation has been improving in the last few years with the support of self-financing.

In terms of operations, the regional offices have brought in new contracts, although the resources generated by these are used to strengthen these offices at the local level. SER consultancies are

³⁷ The international aid organizations that currently finance SER projects are: Catholic Relief Services, Diakonia Christian Development Organization (Sweden), Entraide et Fraternite (Belgium), Fondo de las Américas, Medicus Mundi, the Basque Government, Misereor (Germany), Oxfam Great Britain, the World Bank, Open Society Institute, and Fondo Contravalor Peru (Germany).

conducted by both permanent staff members of the organization as well as outside experts. The organization emphasizes the need to adapt to the specific requirements of each project, both in terms of geographic location and specialization. In order to provide quality services in parts of the country where SER does not have offices or staff, it participates in local networks and coordinates the work of other organizations with local staff. SER's director assigns professionals to its consulting projects in conjunction with the coordinator of the related program and the regional office coordinator. The first choice is a professional from SER's staff, but if no one from the organization is available for a consultancy, an external consultant is brought in. Generally, small consultancies are carried out by in-house staff.

A management challenge for SER involves defining clear procedures, formalizing criteria and setting policies for its consulting services. This process sometimes clashes with an organizational culture that has difficulty "putting things on paper", in the words of the current SER director, Javier Torres Seoane. The team leans more towards consensus-building, especially when faced with the possibility of having to follow inflexible decision-making processes.

On the other hand, due to the scale of the programs and the growth of consultancies, SER is now assessing the need to establish a more formal division between its social and enterprise areas. It is seeking to professionalize its services not only in terms of self-financing activities, but also in terms of project management, time allotment, and accounting and financial aspects. The idea of forming an independent enterprise comes up in Board of Directors meetings and the team is aware that the decision to form the enterprise may distance the organization from its social mission.

In order to minimize conflicts between the social mission and self-financing goals, SER has developed a protocol for taking on new consultancies. The criteria used are: 1) the local population must agree with the service required; 2) there must be a formal request for the service; 3) the service must not be in explicit opposition to the organization's mission; and 4) the regional office in the relevant area must support taking on the project. This policy has, without a doubt, resulted in the loss of some clients for self-financing activities, as to date no mining company projects have met the requirements. However, SER would prefer to turn down these opportunities than to compromise its mission.

An important issue in implementing consulting services for the Peruvian government has been the requirement that SER provide letters of guarantee. To obtain letters of guarantee, SER must deposit a certain amount of funds, but SER often receives late payments for its

services and is forced to seek loans to maintain cash flow. Because Peruvian CSOs are unable to obtain credit from private banks, SER has been forced to obtain loans from the non-commercial financial system at higher interest rates.

Despite these obstacles, SER has benefited from the development of self-financing. It has focused its services on mission-related issues, which in itself reduces risks and tensions. SER believes that going forward in order to be successful, it must organize tasks and staff in the following ways: by defining work agendas and roles; establishing priorities in terms of activities to be carried out; defining goals and known costs; creating mechanisms to publicize its services; and meeting personnel and infrastructure needs. Client demand for services has enabled the organization to identify needs that have not yet been met, and to thus reformulate work areas for its beneficiaries. That was what led SER to add water and sanitation issues to its already existing consulting services on citizenship issues.

Self-financing activities have allowed SER a certain degree of flexibility in terms of investment of its revenue into activities of interest, such as the publications of books and theses, cultural activities, staff training, and support for young researchers. SER also believes that aid agencies have looked favorably upon its self-financing activities, as they contribute to the organization's sustainability. Likewise, the development of self-financing activities has led to improvements in the organization in terms of human resources and administrative and financial management.

5. Limitations and Potential of Self-financing Activities Based on CSO Experiences

Self-financing activities described in the previous chapter exhibit diverse characteristics and varying results. There are notable differences in the weight that self-financing is given within each of these organizations. Those that carry out self-financing activities in a systematic manner (and more successfully) are APROPO and Volunteers, which are hybrid entities. On a second level are the activities of COPEME, Minga and GEA. Although these organizations remain dependent on international cooperation, they carry out systematic efforts to enter the market through commercial activities. On yet another level are CEDAL, Tarea Educativa, DESCO and SER, which carry out self-financing activities practically as an extension of their fields of action. Symptomatically, these are the oldest organizations included in this study, traditional NGOs that have accumulated sufficient prestige to persist in the market of international cooperation, and which have survived the transition from more politicized aid to cooperation that is governed by efficiency criteria.

Volunteers was started as an initiative of business professionals who wanted to carry out activities with a social impact; its organizational culture is driven by business criteria. It is not a CSO that operates development projects, and has never taken that approach. Volunteers' leadership does not express any ethical qualms about selling alcohol and cigarettes as a way to raise funds which permit them to undertake actions with a social impact.

The case of APROPO is different. Although it has relied on business methods since its start, the organization had to change from being a CSO financed by donations to being a self-sustaining institution. Now, after more than 10 years, this transformation appears to have been successfully achieved. Although it is impossible to assess the organizational culture prior to beginning product sales, today APROPO functions practically as a business, and its projects with international cooperation allow it to expand its lines of action and reach a wider audience.

Minga, COPEME and GEA were founded after the general reengineering trend in the nonprofit sector had begun in the early 1990s. These organizations, despite their dependence on international cooperation, have a different mentality than traditional CSOs. COPEME, and micro-credit institutions in general, have organizational cultures oriented towards efficiency, in that they charge for their services and want their members to be self-sufficient. Minga, for its part, carries out systematic efforts to market its products outside the country. GEA created an

independent company to conduct environmental consulting that has achieved success in the marketplace, although there is no formal connection between the organization and the enterprise.

Tarea Educativa, DESCO, CEDAL and SER are traditional CSOs that operate based on a philosophy of solidarity, and which have had very important achievements and impacts in their areas of focus. They have undertaken commercial activities with varied success, but don't see other alternatives for achieving self-sustainability. In terms of organizational cultures, they all successfully underwent institutional reengineering processes in the 1990s and have remained competitive in the international cooperation market. DESCO has successfully positioned itself in the consulting field, while CEDAL has directed itself towards the certification of companies using the international CSR criteria. Tarea Educativa is one of the most prestigious organizations on educational issues, and has succeeded in positioning itself to win contracts with the state. For SER, starting self-financing activities was not easy, but today these activities are an important component of its work in terms of fulfilling its mission. The organization recognizes the need to implement procedures and systems for improving the performance of these activities. Compared to the 1980s, these organizations now have stronger criteria for efficiency and in that sense, self-financing activities have had a positive impact on their organizational development.

We have not observed any neglect of the social missions of the organizations studied. In all cases, priorities are clearly defined and the social mission has not been abandoned in favor of business objectives. Focus on the mission is sometimes viewed as an obstacle to self-financing, as several of the interviewees pointed out that they do not compete in the market under the same conditions as for-profit organizations. But none of the organizations have considered the possibility of neglecting the social mission in order to achieve commercial success.

In this sense, there are great differences in the organizational cultures of the civil society organizations studied. The business approach is quite different from the traditional logic of CSOs, which are accustomed to "selling" products such as capacity development, ideas, promotion of human rights, and other intangibles. Reconciling the search for profit, on the one hand, and the commitment to social good, on the other, can be particularly difficult to achieve.

Except in the case of Volunteers, COPEME and APROPO (and perhaps on a lesser scale, Minga and SER), the organizations included in our study have not incorporated a business vision into their operating philosophies. Evidence of this is that most do not have staff members dedicated solely to business activities, and these activities have generally been started without a plan in place. Many self-financing activities

are operated just like other programs, without special marketing or sales plans. Furthermore, in most cases, sales of products and services do not cover all costs and these organizations continue to depend on international funding. Support in this area could be of great help for the development of the CSO sector in the country. The levels of fragmentation in Peru are immense and CSOs have few connections to the business sector. Generally, the relationship between the two sectors tends to be characterized by an acute lack of trust.

Another problem CSOs say they confront is the legal and tax framework within which they develop commercial activities. In addition to the fact that existing legislation is restrictive for these kinds of activities — and appears to be designed to prevent CSOs from operating self-financing activities — it is also very confusing. Because of the difficulty of completing bureaucratic procedures, some organizations pay taxes that are not applicable to them. One interviewee pointed out that what the organizations most lack for the development of their commercial activities is adequate legal advice.

It is important to point out that while the group of organizations selected for this study is diverse, it does not represent all organizations belonging to Peru's third sector, which as mentioned earlier is comprised of approximately 19,000 nonprofit organizations. The CSOs included in this study are, in general terms, representative of more well-known organizations in the country. There are a large number of organizations that work in the field of ecotourism, or artisanry, among others, that operate self-financing activities. What is needed is a more extensive study of this diverse sector and the various activities its members develop.

6. CSO Support and Donor Organizations' Perspectives on Self-financing Activities

The CSO support organizations consulted in Peru not only support the development of CSO self-financing activities, they also feel that these efforts should be consolidated and complemented by more traditional fundraising ventures. In some cases, these organizations mentioned the development of economic or business activities as necessary for improving and expanding the work of civil society, in part justified by the changing funding environment.

In addition to the income-generating potential, support organizations mentioned the importance of these types of activities as a vehicle for CSOs to implement pilot programs that show the validity of certain development models, which may also be replicated or even developed to scale by local or regional governments.

Support organizations also identify certain requirements or changes that should be made within nonprofit organizations in order to take advantage of opportunities resulting from self-financing activities. The most frequently mentioned is the need to acquire new capacities, followed by a change from a donation-oriented approach to a more entrepreneurial one which seeks opportunities offered by market supply and demand.

Although they recognize the technical capacities of CSOs, support organizations identify several capacity-building needs that are important for CSO sustainability, specifically: development of resource diversification mechanisms; preparation of business plans; a clearer definition of goals and objectives; and greater knowledge of social marketing. Support organizations also mentioned the need to adapt the language and tools used by the business sector to the social sector as CSOs build their capacities.

Other opinions expressed by support organizations involve the need for CSOs to increase transparency, monitoring, and quality of the impact of their work. The development of a self-financing activity would be seen as a way to strengthen their capacity in this regard. Furthermore, support organizations see growth in self-financing among CSOs as a way to attract greater support from other donors.

In terms of trends, all organizations interviewed stressed that CSOs should work toward long-term sustainability of all of their programs. The perceived sustainability of a project is increasingly important in their decision to support a CSO, whether sustainability is addressed as

a component of the proposal submitted or as an area of interest to strengthen.

However, few concrete support programs for CSO self-financing exist, which does not diminish their importance or their need for them. Existing support programs tend to focus on promoting or facilitating training, networking with organizations and channeling financial resources available from other donors or business circles.

There are a variety of existing programs to support training activities. These are often built around specific issues (for example, CSOs that work with children or youth groups), but there are also general initiatives open to all organizations. Ashoka deserves mention for the training it provides in the development of business plans, with the support of consultants from the private sector and competitive bidding.

Although support organizations say they are in favor of CSOs developing self-financing activities, they have also identified certain associated risks, notably mission and vision drift. They also mention the potential for organizations to be perceived as more interested in generating income than in pursuing a social agenda. The support organizations stress the importance of developing only mission-related self-financing activities and recommend absolute transparency in the use of the resources generated, by making this information available to the public. Another recommendation involves the need to establish a connection to the mission from the very early stages of self-financing, through internal reflection and analysis, for example, to reduce the risk of subsequent mission drift.

One opinion expressed by representatives of support organizations associated with the business sector warned that a CSO's use of a social purpose as a competitive advantage may not be well-received in the market. As this may be a controversial point, it requires further research and a comparison of private businesses and CSOs that work on social issues within the framework of their business strategy. This would allow for a more grounded conclusion on the effectiveness of using an organization's social purpose as a marketing strategy in Peru. Either way, several support organizations expressed the opinion that the sale of products and services by CSOs should meet the same standards in the marketplace as for-profit enterprises.

The risk of mission drift exists, and although interviewees feel that this is greater for smaller organizations, it also poses a challenge to larger ones. Nevertheless, the development of a self-financing activity was generally qualified as an opportunity for CSOs to differentiate themselves in an increasingly competitive environment with limited

available resources. A self-financing activity may be considered both an attribute and an example of a CSO's self-sustaining capacity.

Most of the interviewees believe that there will always be a risk that the successful development of a self-financing activity will divert the attention of the CSO away from its social mission. However, they also consider that it is a risk worth taking, particularly because the motivations and goals of the founders would most likely prevent this from occurring.

In terms of promoting self-financing activities among CSOs, all support organizations said they were willing to form alliances and networks for this purpose, to help facilitate the development of more sustainable organizations. In fact, NESsT and several support organizations have already formed a partnership to encourage organizations to apply to the NESsT Venture Fund (Fondo Nido) in Peru through various CSO networks (see Section 8 on Conclusions).

Some representatives of support and donor organizations emphasized the need to learn from the experience and knowledge gained from NESsT's work in the development of social enterprises. This would help generate the trust necessary to implement cooperation between support organizations, especially where it involves selecting and preparing organizations to receive financing from other support organizations that do not include such specific activities in their programs or mission.

There is a scarcity of financial resources for supporting CSOs' self-financing activities, which reflects the relative novelty of the field and perhaps the lack of a more proactive strategy to promote these activities. Despite this, some support organizations have already broadened their vision and begun to think in terms of using a unified reporting format when a CSO receives assistance from multiple sources for self-financing. Support organizations recognize that donor coordination on this issue would contribute to co-financing, not just in terms of start-up support, but also in terms of the different stages of self-financing activities. The goal would be to prevent inefficiencies, such as CSOs having to meet diverse reporting requirements or attempting to respond to varying and possibly conflicting criteria.

Donors

Among the opinions gathered from donors, mostly from the private sector, there is consensus on the importance of supporting CSOs in the development of self-financing as a source of income. Although some indicated that bureaucratic procedures were likely to limit public sector funding, they believe that the private sector has the potential to support such efforts. These donors have indicated that beyond

monetary support, they can also add value with their vision and knowledge of the market and contribute to improving strategic management by working with CSO boards of directors.

When asked about existing support programs in this area, donors indicated that these generally do not exist. However, they did mention certain initiatives, which tend to be part of broader corporate social responsibility programs and are often centered on a company's specific area of interest, such as education or working with adolescents.

When asked to specify how business should support CSOs in self-financing issues, donors have a general vision focused on promoting economic activities in marginal communities. One example is the improvement of infrastructure and support for the operations of a bakery by AFP Integra, which seeks to strengthen the management of the bakery so it may become sustainable. This type of support is given directly and indirectly through other institutions that channel support from many companies. This is the case with Caminando Juntos – the equivalent of the United Way in Peru – which selects projects from diverse CSOs to receive financial backing from “sister” companies. In all cases, support has been given in the form of monetary donations and in very specific cases, when the enterprises have been successful, a donor mentioned considering giving loans.

In broader terms, there seems to be a shift among companies toward building relationships with the social sector. Although this phenomenon is often closely related to the support of corporate marketing campaigns, it also involves opportunities for promoting social projects among employees. This trend is also viewed as an opportunity to create alliances between companies and CSOs based on CSO needs for greater sustainability.

Donors also identified the need for CSOs to innovate in order to find new ways to achieve their own sustainability. This opinion reinforces the idea that a CSO's destiny depends ultimately on its own efforts, even when it receives support from other groups or sectors. Specifically in terms of self-financing, this support can come in different shapes and sizes, as described by the donor group: training, product purchase, opening stores to market products, support through business networks for establishing contacts and opportunities, businesses helping to attract – or leverage – additional resources, and requiring that donations be used for activities that generate more resources.

When asked about how to prevent the creation of CSO dependency on this support, the opinions included: limiting this support to a three-to-five-year period; carefully selecting projects based on viability and

avoiding the approval of grants based only on traditional philanthropic terms; clearly defining expectations; and monitoring on an ongoing basis.

The donor response to CSOs developing self-financing activities was unanimously positive, hence the interest in supporting this area, whether through resources or technical assistance. However, as was the case with support organizations, donors are concerned about the risk of mission drift resulting from an organization's self-financing activity. Nevertheless, donors also feel that this risk is outweighed by the opportunity to reduce dependency and to build a self-sustaining model that can potentially be replicated to benefit marginalized populations.

One donor in particular stressed that the development of a self-financing activity "allows them [CSOs] to work within their specialization to generate income that will be used by their own organization, increasing their capabilities".

One of the recommendations concerns a risk that merits special consideration: the possibility that CSOs will end up adapting their grant proposals to the objectives of corporate donors in order to attract their support. This may make sense as long as it does not lead to mission drift.

The donors who participated in the investigation expressed their willingness to consider specific forms of support in relation to self-financing activities, in addition to those already mentioned, including: capacity-building and investment for social rather than financial returns – with the limitation that some companies would not be willing to finance overhead expenses. This culminates in the need to establish and identify donor criteria for selecting self-financing proposals.

7. The Legal and Tax Framework for CSO Self-financing

In Peru, nonprofit organizations are governed by the Civil Code and operate legally as associations, foundations and committees. The term applied in practically all the cases of CSOs with social missions in Peru is that of nonprofit civil association. In order to be considered an entity with legal status, autonomous from its founders and members, the associations must register with the Public Registry Office located in their jurisdiction. As Portocarrero, et al. (2000: 82) point out:

The association constitutes a stable organization of natural persons or legal entities or both, which pursue a nonprofit purpose through a common activity (Art. 80 of the Civil Code). This is the legal status most frequently utilized for the constitution of nonprofit organizations, independently of the area to which they are dedicated. This category includes associations whose purpose is athletic (sports clubs), educational (schools, institutes, universities), of social development (NGOs), and cultural (museums, artistic associations), among others.

International cooperation agencies require Peruvian CSOs to register as non-governmental organizations (NGOs) with APCI. Although this is not mandated by law, the requirement is meant to promote transparency. In strictly legal terms, the nonprofit organization is only required to have the legal status to be able to sign agreements with agencies of international cooperation.

A foundation, for its part, “is a nonprofit organization created ... to carry out objectives of religious, social assistance, cultural or other character of social interest” (Article 99 of the Civil Code). Foundations, unlike associations, are heavily regulated and are more restricted, both legally and administratively. Foundations come under the control and oversight of the Council of Foundation Oversight (Consejo de Supervigilancia de Fundaciones, or CSF). Among the restrictions is that the founder is excluded from participating as a staff member in the organization, as well as inflexibility in the decision-making process. Because of these and other restrictive bureaucratic requirements for obtaining authorization from the state for various activities, the foundation structure is not widely used in the country.

A committee “is an organization of individuals and legal entities, or both, dedicated to the public collection of donations destined for altruistic purposes” (Article 111 of the Civil Code). In practice very few charitable organizations are registered as committees; one exception is

the Red Cross.

To be recognized as nonprofit organizations, CSOs must establish the activities they will undertake – their social purpose – in their bylaws. However, this purpose can be broad, with stipulations such as “the society may undertake any other activity related to the social purpose that furthers these ends, even though it is not expressly indicated in the bylaws”.

The legislation applicable to CSOs in Peru is not very extensive and there is no legal limitation on self-financing activities, even if such activities are not related to the social mission.

A CSO may not distribute the income it receives directly or indirectly for any purpose (donations, programs, self-financing) among its members, and this income must always be reinvested in the development of its social mission.

Peruvian legislation in this area adheres to the principle of the “destination of the income”³⁸. This means that regardless of the source of self-financing funds, the income obtained may not be distributed among its members and must be used to further the social mission it was originally conceived for.

Self-financing activities do not require a CSO to create a separate enterprise; the CSO can undertake these activities along with its social programs.

The principal benefit that nonprofit organizations receive is an exemption from paying income taxes (30% of net income). In accordance with Income Tax Law No. 26249, the following are exempt from this tax (among others):

- b) The income destined for specific objectives in the country, foundations or legally authorized charities providing social assistance, education, cultural, scientific, artistic, literary, athletic, political, professional, unions, housing organizations and others with similar objectives; provided that they don't distribute income, directly or indirectly, among their members, and that in their bylaws it is specified that their wealth will be destined, in the case of their dissolution, to any of those purposes listed in this section.

“The statutory resolution that the previous paragraph refers to is not applicable to international technical cooperation entities and institutions (ENIEX) registered in other countries”.

Exemption from income taxes applies to those activities which are

³⁸ See *The Legal and Regulatory Framework for CSO Self-financing in Peru*, published by NESsT in 2007.

specified in the statute, and business operations that diverge from those objectives listed in the law are taxed. There are cases of associations that pay income tax, for example when an association does not specify in its bylaws that its income may not be distributed among its members, or that in the case of dissolution the assets will be passed to another nonprofit organization with similar objectives. Another common error that prevents exemption from income tax has to do with the format of the PDT (program of electronic declaration) for paying the value-added tax, or VAT, on monthly income. Nonprofit organizations are required to declare the monthly VAT and pay using the PDT, an online form, which also includes a line item for declaration and payment of 2% of the income tax. Although this tax applies only to businesses, the PDT form automatically fills in the 2%. Unless the organization deletes the 2% figure and replaces it with 0%, SUNAT automatically includes it.

All nonprofit organizations pay value added tax, with the exception of CSOs registered with APCI. Registration with APCI grants NGO status which provides certain tax benefits, such as the return of sales tax paid in the acquisition of goods and services offered by NGOs and exemption from sales tax for imported or donated goods.

However, most CSOs do not request the sales tax return because to do so requires a lengthy and complicated procedure. For many organizations, the amount returned is not worth the time it takes to obtain it. This option is worthwhile only for CSOs that receive funds from abroad and pay a significant amount of VAT. The procedure for the tax return – which must be completed for each project – involves the following steps:

1. Obtain the Resolution of Registration from the Registry of Income-Tax-Exempt Entities (administered by SUNAT).
2. Obtain a registration form for the APCI registry (the bylaws of the organization must state that its objective is not-for-profit; that in the case of dissolution, the CSOs assets will be passed to another nonprofit organization; and that any profits may not be distributed among the members or employees of the organization).
3. Request the approval of the relevant ministry (if it is national) or regional government authority (if the project is regional) to request the return of VAT. The requirements for sectors vary, that is, in their Texts of Administrative Procedures. Once the approval letter is issued by the corresponding ministry, the organization moves to the next step.
4. Request proof from APCI related to the property and services for which the VAT return is being requested.

After a project has been underway for six months, the organization

may request the return of VAT paid. This may be done twice a year with an invoice; sales receipts are not sufficient. Requests for the return of VAT are usually made by organizations such as USAID or other large cooperation agencies, which, for example, may spend US\$20 million in construction materials for an infrastructure project. In such cases the effort is worthwhile, although the tax return is usually sent a year after the request.

It is important to mention that although the APCI registry was created to facilitate the reception of funds from international aid for CSOs in Peru, as we have mentioned, it has taken on a more supervisory role with regard to the use of resources that CSOs receive from international sources.

The Peruvian legislation applicable to CSOs is adequate, as it allows them to carry out self-financing activities that further the development of their social action programs, without having to depend exclusively on third-party funds.

At the same time, the Peruvian tax framework is difficult to understand and to use for taxpayers in general, and particularly for CSOs. This situation is further exacerbated by a policy pursued by recent governments that seeks to limit tax exemptions.

In terms of the tax system, the income-tax exemption for CSOs seems fair, as long as the income generated is not distributed among the organization's members but is reinvested in the social mission, for which the special SUNAT registry exists. However, the list of exempt activities detailed by law should be expanded to include other explicit types of social purposes with a social benefit or that support a social agenda, including: environmental protection, tourism, technical assistance, and local institution-building or similar areas. Its application should also be expanded to "other purposes that contribute to social development in general", in order to include a wide variety of organizations that undertake important social work, but until now have been left out of the income-tax-exemption benefit.

The tax legal framework is viewed as a favorable instrument for the promotion of CSO activities through special tax breaks (such as income-tax exemption). In this sense, by issuing tax exemptions to CSOs (and therefore to their activities, including commercial activities that derive from and further their social mission), the state provides a sort of indirect financing through a partial waiver (tax waiver) mechanism of its tax collection expectations. This has important redistribution effects: it contributes to the strengthening of nonprofit organizations that provide social-purpose goods and services in a way that complements the state, or in areas the state does not reach. This benefits a broader group of stakeholders (CSOs, local organizations or benefici-

aries of the social programs that CSOs develop and donor agencies), including the government itself.

In 2007, a provision of the Income Tax Law was eliminated, namely that “income from business operations other than those established in the bylaws” is generally not exempt. However, CSOs do not have a clear sense of the limits of self-financing activities, especially if they are not directly related to their social purpose, and they are not aware of the specific tax requirements these may impose upon them.

Finally, the procedure for obtaining exemption from the value-added tax should be simplified to benefit not only the larger CSOs, but all organizations. The VAT implies a significant cost (19%) for CSOs, especially those that are ineligible for this tax break because they don't operate self-financing activities to which VAT is applied, but whose social purpose would benefit from the availability of additional resources. The same is true for enterprise activities where CSOs transfer the corresponding 19% VAT on goods and services to their end-users or buyers, many of whom are low-income people for whom the additional cost represents a significant burden.

8. Conclusions and the NESsT Venture Fund Strategy

Although there are some solid CSO experiences of self-financing activities in Peru, this has not been a widespread strategy among organizations seeking sustainability and most continue to depend primarily on international cooperation. Self-financing has always been present to some degree among CSOs, although largely on a conceptual level associated with the desire to reduce dependence on cooperation because of the risk of aid agencies leaving the country or changing their focus. A widespread belief among CSOs is that to engage in successful, mission-focused self-financing activities is not possible, due to an erroneous perception that any work in the areas of poverty or marginalization is, or should be, by nature unprofitable.

Only in the 1990s did organizations begin to emerge with a more business-oriented agenda and a focus on self-financing activities alongside the development of their programs, within the framework of long-term goals. However, even in these cases, CSOs tend to undertake self-financing activities spontaneously, with little knowledge and internal capacity. The result is that many of these activities do not provide the organizations with enough revenues to have a significant impact on sustainability. Furthermore, while many of these self-financing activities help to bring about social impacts, it is unclear whether these impacts are of a scale that a well-planned and implemented self-financing activity could have in terms of job creation and inclusion opportunities, as well as in reaching new sectors and increasing visibility and support for social issues.

Support organizations and donors strongly favor CSO adoption of self-financing strategies. There is also a call for more capacity-building services in this area to improve internal CSO ability to develop activities aligned with their missions. Such capacity-building would lead to an improved enabling environment for enterprise strategies to reinforce financial and social impacts of these organizations. These players (support organizations and donors) are willing to collaborate to support efforts along these lines.

The Peruvian regulatory framework does not encourage the development of self-financing activities, largely because it does not clearly define the permissible level of self-financing, it limits the tax benefits to certain CSOs and activities, and requires organizations to comply with burdensome procedures for income-tax and sales-tax exemption.

The Fondo Nido Strategy

To improve the environment for CSO self-financing, NESsT launched the NESsT Venture Fund (Fondo Nido) in Peru in 2007. Fondo Nido provides financial and capacity-building support to a select portfolio of CSOs to develop social enterprise activities that strengthen these organizations' financial sustainability, thus maximizing their social impact. Fondo Nido works in two stages: 1) an early stage where the organization prepares for self-financing and develops the capacity to assess an enterprise activity that is compatible with its financial and mission goals. The final product of this stage is increased capacity to carry out a self-financing activity and a business plan for its implementation; and 2) a later stage where the organization implements its business plan with the ongoing support of the Fondo Nido. At this stage, the organization signs a memorandum of understanding (MOU) with NESsT to establish the capacity-building areas where NESsT will provide support and the areas of the business plan that the CSO will implement. In addition, the CSO develops a performance measurement and management plan based on a tool developed by NESsT to help CSOs manage their self-financing activities. The tool helps CSOs mitigate risks and monitor implementation of marketing, sales, financial, and operational plans. During both stages, Fondo Nido also supports self-financing activities through "venture grants" which finance a portion of planning, product or service launch, operational and expansion costs.

Considering the results of this assessment, NESsT believes that the need to establish Fondo Nido in Peru is fully justified. Services specifically focused on the social enterprise activities of CSOs are clearly needed, as there appears to be a void in this area. In most cases, CSOs are initiating self-financing activities with minimal knowledge and capacity, limiting the potential return in terms of their human and financial resources. Although some efforts have been made to support CSO business or economic activities in Peru, most of these efforts have not been long-term and continuous, two fundamental aspects when launching an enterprise activity.

Furthermore, as a means of providing support to the work of NESsT and its Fondo Nido, the donors who participated in this research have indicated their willingness to contribute, ideally in collaboration and coordination with one another, seek results and utilize resources to ensure the development of key capacities. This fits with NESsT's expectation that several donors will support and co-finance business plans created within Fondo Nido. Many support organizations expressed interest in using the NESsT performance management tool as a basis for creating a unified report for different donors financing social enterprises. Likewise, the research has identified the opportunity

– even for Fondo Nido – to present proposals developed by the CSOs in its portfolio to donors for financing that would allow them to implement their social enterprise activities.

This research confirms the importance of the specific work provided by NESST in giving coherence to a social enterprise planning process, particularly with regard to compatibility with an organization’s mission and values. Ensuring this compatibility must begin at the earliest stages of the process. Based on the experience of Fondo Nido in other countries, this coherence allows CSOs to launch social enterprise activities that strengthen their missions and at the same time have a greater chance of success in the marketplace. This also ties in with the preference of certain donors to work through intermediaries like the Fondo Nido to channel resources more efficiently into what they consider to be sustainable initiatives.

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