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Enterprise and  
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Team (NESsT)**

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# Corporación CIEM Aconcagua Furthering Organizational Mission through Self-financing

CIEM Aconcagua is a community development institution that supports local development efforts in the Aconcagua region of Chile, focusing on microenterprise, conservation and promotion of the local natural and cultural heritage, and capacity-building among young people and artisans in traditional arts and trades. Through a special arrangement with the bishop of the San Felipe diocese, the organization was given the lease to a Roman Catholic convent, which it restored into a Center for the Arts and Trades. There, the director and his resourceful team have initiated a series of self-financing activities, including courses in the arts and trades; a small art gallery and movie theater; a café and handicrafts shop; rental of the grounds for events; and a community extension program. Revenues from these activities have allowed CIEM to diversify its funding base and decrease its dependence on government contracts. The activities that are most closely linked to CIEM's mission have been most financially successful and have created less tension in the organization's internal culture.



#### **Location**

San Felipe, Chile

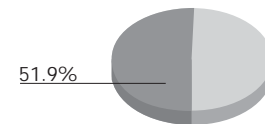
#### **Fields**

- Culture and education
- Small business development
- Environment
- Health
- Social Services
- Community Development
- Other

#### **Annual Operating Budget (1998)**

CLP 110,507,000'  
(approximately USD 221,014)

#### **Percent of Self-financing**



#### **Self-financing methods used**

- Member Dues
- Fees for Services
- Product Sales
- Used of Hard Assets
- Use of Soft Assets
- Investment Dividends

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## 1. Background

1 CLP is the International Organization for Standardization (ISO) symbol for the Chilean peso.

2 The Aconcagua Valley is a microregion close to Santiago mainly devoted to farming for export (table grapes). It comprises two provinces (San Felipe and Los Andes), which in turn are divided into 10 communes. Petorca province is located a short distance to the north and its territory extends from the mountains to the sea. All three provinces are in the interior areas of Region Valparaíso, though in geographic and economic terms they are more closely linked to the capital, Santiago.

3 Since 2000, all CIEM activities have been concentrated in the Centro de Artes y Oficios El Almendral. The previous location in downtown San Felipe is not used.

CIEM Aconcagua is a community development institution that supports local development efforts in the Aconcagua region of Chile. It focuses on small business development; conservation and promotion of the local natural and cultural heritage and the arts in general; capacity-building among young people and artisans in traditional arts and trades; education; and environmental protection.

CIEM works in various fields. When first founded, it provided training and technical advisory services, management and marketing support to microenterprises. Later the organization began to promote environmental education among owners of microenterprises, schools, and the general community in the Aconcagua Valley and Petorca province<sup>2</sup>. Initially, these activities were conducted at CIEM headquarters, located in the downtown area of San Felipe.

At the Centro de Artes y Oficios El Almendral (El Almendral Arts and Trades Center), which operates in an old restored Roman Catholic convent located close to San Felipe, CIEM conducts workshops and gives courses to unemployed, at-risk young people in such traditional trades as ironwork, carpentry, and gold- and silversmithing. In addition, it coordinates events and courses at the center and in the community to foster appreciation of local culture and art in general. Courses include painting, film appreciation, drama, ceramics, and sculpture. Furthermore, Centro El Almendral is a tourist attraction that promotes the area and offers visitors an opportunity to purchase local handicrafts. The organization also develops projects in the area of environmental education and protection addressed to different audiences.<sup>3</sup>

Some of the activities sponsored by Centro El Almendral, such as open-air movies, work in schools, and art exhibitions, are part of its extension program to the community. The center also rents its audiovisual equipment to local establishments.

CIEM owes its full name, Centro de Iniciativa Empresarial (Center for Entrepreneurial Initiative), to the fact that it was originally part of a set of similar centers organized in the early 1990s with government funding from the Fondo de Solidaridad e Inversión Social (Solidarity and Social Investment Fund), or FOSIS. The centers were set up in various regions with a view to supporting microenterprises in diverse areas. In San Felipe, the FOSIS project was carried out under the aegis of the Social Action Department of the obispado (bishopric) between 1993 and 1995. One of the requirements of the FOSIS project was that the centers should be organized as corporaciones in order to ensure their sustainability. This was done in January 1995, and CIEM formally began its activities in September of that year.

On completion of the FOSIS project, CIEM began to undertake other projects with the support of the Roman Catholic bishop of the diocese. Later, the bishop assigned the parish facilities at El Almendral to CIEM under a "gratuitous loan agreement" (i.e., the bishop allows CIEM to use the building at no cost for a specified period of time). Together with CIEM, the bishop obtained funds to restore Centro El Almendral as part of the parish church restoration project when the church was declared a national monument.



In legal terms, CIEM is organized as a private nonprofit corporation. It has an assembly of members, composed of 16 persons, and a board of directors consisting of six distinguished community leaders and local personalities linked to the Roman Catholic Church, banking, and other professions.

## 2. Financial Information

### 2.1 Income

CIEM's income for 1998 totaled CLP 110,507,000 (approximately USD 221,014). Of this total, 48.2% came from donations, of which 31.6% were from international donors and 16.5% from domestic public funds, mainly from Fondo de las Américas (Fund for the Americas). The balance (51.9%) came from self-financing activities: fees for services (41.5%), sales of products (8.0%), rental of assets (0.1%), and returns on investments (2.3%). In 1999, the figures did not differ greatly. Income totaled CLP 140,832,741 (approximately USD 256,060), of which 32.2% came from donations from national public funds (no funds were generated from international sources that year) and the remaining 67.8% came from self-financing activities: fees for services (49.9%), sales of products (10.9%), rental of assets (3.9%), and dividends on investments or savings (3.1%). Of the 49.9% in fees for services, 45% was from sales to public agencies and the remaining 4.9% was from sales directly to private clients and visitors to the center.

### 2.2 Expenses

In 1999 and 1998, CIEM spent 9% of its budget on administrative costs, 6% on institutional development, and 85% on programs and activities. The breakdown for 1997 was similar.

Table 1 *Sources of income 1997-2000*

(Percentage of Total)

	2000	1999	1998	1997
International sources				
Foreign/international donations	11.29	-	31.6	42.15
Public sources				
Domestic public sources	17.21	32.18	16.5	37.47
Self-financing				
Fees for services	58.24	49.91	41.5	8.44
Sale of products	9.25	10.86	8.0	5.72
Rental of space and equipment	2.43	3.91	0.1	0.22
Returns on investments	1.58	3.14	2.3	3.50
Other	-	-	-	2.50
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



### 3. Self-Financing Activities

CIEM has chosen to give priority to self-financing activities that are compatible with its mission and capabilities, given that such activities have proven to be the most profitable as well as the most sustainable.

Table 2 *Types of Self-Financing*

<i>Type of self-financing</i>	<i>Description</i>
1. Sales of products	CIEM operates an arts and trades center designed for both training in and dissemination and development of the arts for the community and the tourist trade. CIEM has a store for sale of local handicrafts and a café that sells coffee and homemade food. CIEM at one time sold items made at its own local training workshops, mainly custom-ordered wood and wrought-iron furniture. Although demand for these items was high, the organization was not able to produce a high enough quality product while at the same time recovering its costs, and therefore decided to give it up. In addition, the organization makes a commission on the sale of each painting exhibited in the art gallery.
2. Fees for services	CIEM charges for the workshops on environmental education taught to companies and other organizations and for advisory services supplied to some medium-scale businesses in the area. At the center, CIEM charges for certain training workshops in artistic trades, as well as fees for events held on the premises and for entrance to the movie theater. Most of the fees for services are from government sources (for the most part FOSIS), for advisory services to microenterprises and for capacity-building for young people. These funds are tendered each year for short-term projects.
3. Use of hard assets	The center occupies a large house of the colonial period, which was beautifully restored and is well-equipped and kept in good condition. CIEM leases the space for local events, e.g., seminars and courses, and for private meetings held by other institutions and organizations.
4. Returns on investments	CIEM maintains the funds received from donations in interest bearing accounts. The returns that help cover operating costs.

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## 4. Start-Up

CIEM was founded at a time when the volume of international support to non-governmental organizations (NGOs) in Chile was diminishing and the national government began to fund projects for execution by the private sector. CIEM was provided with such funds from the beginning, first for advisory services to microenterprises, then for capacity-building programs for young people. The features of such funding, however, limited CIEM's autonomy and failed to ensure institutional sustainability.

This situation and the establishment of the Arts and Trades Center at Almendral led CIEM to initiate other kinds of self-financing activities. The Bishopric of San Felipe, which owned the house, assigned it to CIEM for the organization's use and enjoyment. The original gratuitous loan agreement had a three-year term and was amended in 1998 to be automatically renewable every ten years in order to ensure the center's stability. As a result, CIEM has at its disposal a high-quality fixed asset with manifold possibilities for utilization and extension into the community. Indeed, in the entire area (three provinces) there is no other cultural center of such architectural value or offering such a variety of artistic and cultural expressions as Centro El Almendral. At the same time, the experience gained in advising microenterprises and in training young people opened the possibility of charging paying customers (i.e., companies) for these same types of services.

The new strategy required substantial investment in rehabilitating the site where the center was to operate, which is very old and was in sad condition. An ambitious restoration plan is being carried out in stages with the aid of the bishop and contributions from CIEM itself. First to be restored were the art gallery, café, handicraft store, workshop rooms, management offices, and toilets. A small movie theater came next, which also offers a place to host seminars and courses. The third stage of restoration, which is currently under way, will add new rooms and facilities to the inner courtyard as part of CIEM's plan to operate a permanent school for the arts and trades. Restoration of Centro El Almendral and start-up operations at the store, café, cinema, gallery, workshops, and auditorium cost about 60,000 USD, which was funded mainly from donations (53%), CIEM funds (40%), and in-kind donations (7%).<sup>4</sup>

Restoration of the center began with funds donated by an Italian diocese, "sister" to the San Felipe diocese. The funds obtained were applied in 1993 to restoring the church, the parish house, and the old convent, adapting it for operation as an arts and trades center. All construction at this stage was supervised by an architect and his staff, who performed all repairs to roofing, walls, and toilets at cost, receiving no compensation for their work. Once the first stage was completed, CIEM staff, with financing from CIEM projects, began directing the restoration with the support of several workers. In 1995, CIEM began offering government-funded capacity-building courses in construction trades to unemployed young people. This allowed restoration of the center to continue. Workshops were organized on ironwork, woodwork, and painting. Thus young people obtained their training and practice within the framework of the El Almendral restoration.

CIEM was founded at a time when the volume of international support to nongovernmental organizations (NGOs) in Chile was diminishing and the national government began to fund projects for execution by the private sector.

<sup>4</sup> It is worth pointing out that a restoration job of this magnitude and quality, if estimated at market prices, might easily amount to three or four times what was actually spent. CIEM's ability to mobilize in-kind and financial resources was undoubtedly a major coup in this regard.



Although a substantial percentage of self-financing is still from government contracts, CIEM gives priority to projects that strengthen and expand its mission and refrains from entering into service areas that differ from this mission.

The use of self-financing emerged from a desire on the part of CIEM staff to become independent from government funding tied to services. Such funding imposes a large number of administrative and management restrictions and does not allow for evaluation of results and impact or for the implementation of lessons learned. In addition, funding of this nature is unstable over time and usually does not include support for operational expenses, which often have to be subsidized by the NGO. CIEM was therefore motivated by a desire to expand and improve its mission. Although a substantial percentage of self-financing is still from government contracts, CIEM gives priority to projects that strengthen and expand its mission and refrains from entering into service areas that differ from this mission. CIEM's approach is to implement a diversified funding strategy to support its programs and activities. This strategy entails combining self-financing activities that generate income with those that are not able to cover their costs, and implementing fee-for-service contracts as well as services initiated by CIEM.

CIEM has developed a number of its own income-producing activities. An attempt was made to market items made by the students and teachers in the iron and carpentry workshops. This was done in response to local demand for such items, which had already been made for use in repairing the center. The high costs of producing high-quality products made this a very nonlucrative activity which eventually had to be abandoned. At the same time, CIEM realized that producing and selling these high-quality products for a profit was incompatible with training unskilled young people, which is a very strong component of its program and mission.

The handicrafts shop opened by CIEM continues to operate to this day. It sells products made by local artisans to the local community and tourists. Since local artisans lack the capital to put their products up for sale indefinitely, CIEM purchases a limited quantity from those interested in marketing their products through Centro Almendral. If the items are sold within a reasonable period of time, an additional quantity is ordered from the supplier. If not, no more items are purchased from that particular artisan. The initial purchase is made with resources from the revolving fund managed by CIEM, which provides a certain amount of capital that is subsequently repaid from sales. If the items do not sell, the loss is minor and easily covered with the sale of more commercially successful items.

Another activity that was started upon completion of the first stage of restoration was a café designed for tourists and visitors, located next to the handicrafts store. Managing the café proved too difficult for CIEM staff, however, and the organization decided to lease it to an operator who was in the business. In this way, CIEM is no longer responsible for the day-to-day management of the café but receives a percentage of its revenues.

The art gallery, in turn, earns income from commissions on sales of paintings exhibited there. Works donated by exhibiting artists to CIEM become part of the organization's endowment. Gallery operating costs are very low and are subsidized by a micro-enterprise (now a medium sized company) that once received techni-



cal assistance from CIEM. Now, under a three-year agreement, the company is reciprocating this assistance through its donation. Under prevailing legislation, CIEM may furnish this company with a donation certificate, thus enabling it to deduct part of the contribution from its profits. With these various sources of income, the gallery adequately covers its costs.

The movie theater started as part of a project designed to foster film appreciation among the local community, financed with funds contributed by Fondo de Desarrollo del Arte y la Cultura (Fund for Development of Art and Culture), or FONDART. Once the theater was equipped and the project was completed, CIEM began selling tickets to the public. Ticket sales do not cover the costs of operating the movie theater; however, the center is able to recoup the costs by renting the equipment for open-air film shows organized by the local community.



Center facilities are also rented for various kinds of educational events. These events are screened by CIEM to ensure that they fit in with its mission.

Center facilities are also rented for various kinds of educational events. These events are screened by CIEM to ensure that they fit in with its mission. Requests to use the premises for training purposes unrelated to CIEM's mission (e.g., a course in driving instruction) have been refused. Sound and video projection equipment is rented out to city councils, utilities, and other organizations, as such items are scarce in the area and CIEM's rental terms are favorable.

Since 1995, CIEM has participated in tenders to offer training to unemployed youth and advisory services to microenterprises. Attempts, unsuccessful so far, have been made in conjunction with other institutions to win contracts for environmental studies. The idea is to enter into agreements with the public sector on matters of interest to CIEM while also generating income.

Experience obtained in capacity building allows CIEM to offer extension courses addressed to a public that can afford to pay for them. A six-month program of courses and workshops is offered to the public. The object is to cover costs by offering only those courses that receive a minimum enrollment. The more popular ones subsidize those with fewer students. Courses that receive very low enrollment are cancelled, and applicants can either enroll in other courses or have their fees returned.

Advisory services have been provided to organizations on how to meet environmental standards, a new issue under Chilean legislation. This activity is carried out to the extent that costs can be covered and extra income obtained. CIEM's self-financing activities have undergone a number of changes over time.



The general lesson for CIEM in regard to self-financing is that its ability to manage and generate funds is directly related to the link between its activities and its mission.

The most constant type of self-financing has been fees for services, although the financial return from these services has diminished over time. Some of CIEM's activities are still carried out through tendering for government funds granted for advisory services to microenterprises and employment training of young people. Another and smaller part, in terms of the amount of funds involved, is the sale of these activities to persons that are in a position to pay for them (e.g., advisory services to businesses on environmental issues, gold and silversmithing workshops, and other courses).

The sources of self-financing income from use of the center have expanded from rental fees for events and activities of other institutions to fees from CIEM's own services: ticket sales from the movie theater and other cultural activities (music, plays, storytelling), sales commissions from the paintings exhibited at the art gallery and the handicrafts, and sales at the café. The organization is also building its endowment from paintings donated by exhibiting artists.<sup>5</sup>

The general lesson for CIEM in regard to self-financing is that its ability to manage and generate funds is directly related to the link between its activities and its mission. It has tended to set aside activities that required the organization to behave purely like a business, activities for which it lacks the necessary competencies and which can affect team performance. The activities CIEM does carry out do not follow a preconceived business plan but are creative ways to enhance the organization's development and reduce its dependence on international cooperation and public funds. The staff uses a strategy of continuous evaluation and adaptation of the activities. This has proven most effective to date.

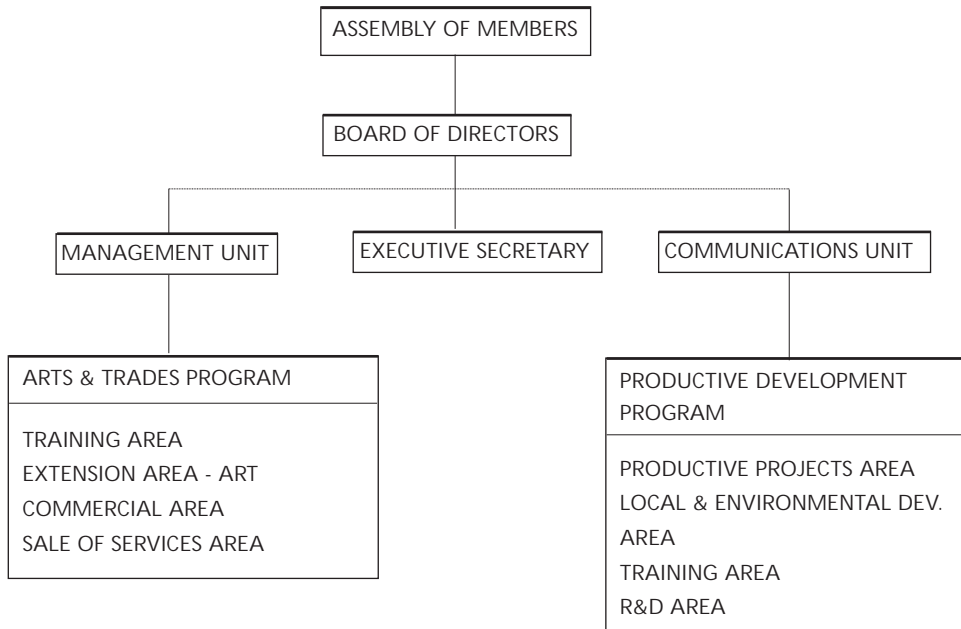
## 5. Management

CIEM has not set up a separate management structure for self-financing, though the team includes members directly responsible for this function. An organizational chart drawn up in 1996 included two programs (an arts and trades program and a productive development program), two support units (management and communications), and a number of areas within the programs. The chart was followed closely for two years, but then fluctuations in the number of staff hired led to establishing new functions and redistributing jobs and responsibilities, so that by 1998 it was practically disregarded. The organizational structure is currently under review and reorganization.

<sup>5</sup> In late 2000, CIEM received a donation of a high-quality offset printer and established a printing shop as a new fee-for-service area. This equipment opens the prospect of teaching courses in graphic arts and printing, reducing promotion costs by producing self-printed leaflets and brochures, and offering high-quality, artistic printing services to businesses and institutions in the area. With these possibilities, sustainability for the new work unit seems assured.



Table 2 *CIEM*



*Source: Jorge Razeto, CIEM director*

In 1998 the staff numbered 23 full-time and 8 part-time members, who were responsible for the various programs and had the use of four motor vehicles. In 1999 and 2000 finances were very tight, and the number of staff had to be reduced; those who stayed, including the director, worked shorter hours. An institutional development program began in 2001 with the support of an international foundation, which helps to pay for the salaries of the core staff: one director and two members responsible for areas or programs.

No staff are allocated specifically to self-financing, as this activity is linked to all CIEM programs. Clear-cut responsibilities are allocated to each staff member in specific areas, including that of obtaining resources. As explained below, attempts have been made to include staff specializing in commercial and financial management from the private sector. But these efforts have not been very successful.

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## 6. Policies and Legal Framework

In Chile, CSOs may conduct commercial activities but must pay income tax on any profits generated from these activities even though these profits are used for mission-related programs. CSOs may pursue commercial activities as long as they are not principal activities, but rather are incidental or supplementary operations of the organization or assist in promoting its mission. Organizations may organize



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these activities under their existing legal structure or they may choose to establish a separate, for-profit entity that donates its profits back to the CSO.

Although the majority of CSOs are required to pay the first category tax on income generated from commercial activities, some CSOs are eligible for an exemption from this tax. Article 40(4) of the Income Tax Law provides an exemption from first category tax for those welfare institutions recognized as such by the President of the Republic. These organizations may receive the income tax exemption only when their commercial activities are mission-related. The law states that this benefit applies only to nonprofit institutions whose main purpose under their bylaws is to render material or other assistance to low-income individuals.

For-profit and nonprofit entities alike conducting commercial activities make provisional monthly payments of 2% on all sales during the course of the calendar year. In April of the following year, each commercial entity must report its income for the previous year. At this time, it may either be required to pay the full first category tax or be able to deduct part or all of its monthly payments in

lieu of paying first category tax, depending on the level of profit it generates throughout the year. Many CSOs conduct commercial activities at low levels, making provisional monthly payments throughout the year and then deducting part or all of these payments at the end of the year.



CIEM organizes a few of its self-financing activities as separate commercial activities, although they are directly related to the organization's mission. CIEM applied for Presidential Recognition as a welfare institution, but was denied this status and therefore must pay first category

tax on income. However, CIEM operates all of its commercial activities at low levels so the organization makes provisional monthly payments of 2% on all sales, rather than the full 17% tax that represents the first category tax for businesses operating at higher volumes. CIEM can recoup these monthly payments at the end of the year if its balance sheet shows no surpluses, but may be required to pay additional taxes if it has generated significant revenues.

CIEM's commercial activities include operation of a printing press, which publishes both its own materials and those of small businesses and other CSOs in the region; a store that markets and sells products purchased from local artisans; a café that sells coffee and homemade food; and rental of equipment and space.

CIEM has obtained licenses from the local municipality for each of its commercial activities, but this process is relatively easy and the costs are reasonable.



CIEM has not applied for an exemption from these license fees for which it may be eligible under Article 27 of the Law of Municipal Taxes.

With the exception of a few exemptions, all entities—for-profit or nonprofit alike—engaging in commercial activities collect value added tax (VAT) on their sales and pass along these revenues to the treasury. These entities may later recoup the VAT they paid on purchases related to the products they sell by submitting receipts to the Treasury. In the case of CIEM, the organization must also make monthly VAT payments on the above activities, the majority of which it recoups through its sales.

The capacity building programs that CIEM offers to youth in the arts and trades are not deemed commercial as such. These programs are considered educational and are therefore exempt from first category tax. VAT does not apply because these activities are considered training programs, which are exempt from payment of VAT under Article 13 of Law Decree 825. CIEM does not pay first category tax or VAT for ticket sells to events held at the center, including its movie theater, because these activities are conducted irregularly and at low levels.

## **7. Effects of Self-Financing on the Organization**

### **7.1 Mission and Values**

CIEM's self-financing efforts are designed to strengthen its mission and to avoid activities that could cause the organization to stray from that mission. In fact, self-financing has allowed the organization to enter the area of art and culture, an area which is difficult to fund, and therefore has enabled CIEM to expand its mission.

As already mentioned, the effort in 1997 to produce and sell custom-ordered wood and wrought-iron furniture failed. The products were not of high quality because the work was done by trainees, and since CIEM is devoted to training young unemployed people, it was not feasible to achieve better quality without straying from the organization's mission. Director Jorge Razeto feels that it was a mistake to move from training to production, where the organization was unable to control quality and costs. Activities closer to the mission, such as providing training workshops and advisory services to organizations for a fee, have proved to be more profitable.

The foregoing experience helped CIEM to deal more realistically with another of its sources of self-financing, the café. CIEM staff had no experience in café management, so at first the café was not profitable. The organization decided to franchise the café, giving up direct management but retaining a percentage of revenues earned. This structure has proved to be more effective, yielding more steady revenues for the organization. The movie theater and art gallery, on the other hand, demand less management effort, easily cover their own costs, provide services that are directly related to the promotion of culture, and entail skills that are found among the professional staff.

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Given the small number of staff and limited revenues for business investments, CIEM learned that it was better to keep self-financing close to the mission. Several capacity-building workshops were launched in 2000, focusing on arts and trades that have proved lucrative, thus furthering the mission of the organization.

### *7.2 Organizational Culture*

Management and operations of self-financing activities remain within the structure of the organization. Given that most of the activities are directly tied to CIEM's mission, the organization did not see a need to set up a separate commercial operation or to elect a separate board of directors. To date, implementing the self-financing strategy has had no effects on CIEM's governing structure. The board of directors has supported the strategy at all times and shares the ideal of autonomy on which it is based.

Major changes and tensions, however, have taken place in the team. The new activities have required hiring specialized staff with experience in sales and commerce. In Jorge Razeto's opinion, the main hiring difficulty lies in striking a balance between commercial experience and commitment to the institutional mission. The first person hired as marketing director lacked the necessary experience. The second practiced what CIEM considered to be unethical relations with vendors (accepting perks in exchange for services), and that person had to resign. Then someone was hired who had commercial experience but was unfamiliar with CIEM's work, and this caused constant friction.

The team as a whole has had to adapt to and learn from the challenges of self-financing. This has required ongoing internal analytical reflection on their work as well as external evaluation of the concrete results of their efforts. The team is constantly seeking to keep the content of income-generating activities in line with CIEM's mission and the needs of its constituents. On an ethical plane, CIEM has had to face the issue of setting fair prices for services offered. As a result, the organization has become more open and communicates much better with the outside world than it did when it was active only in advising microenterprises.

### *7.3 Autonomy*

The level of self-financing achieved to date has given CIEM greater autonomy. Indeed, that is the whole point of the strategy. First, the organization obtained the ongoing use of an asset (Centro Almendral) without running into debt for restoration and equipment. The income obtained from activities at the center can thus be plowed back directly into the mission or into expanding self-financing activities. Second, in comparison with alternative sources of funds available to CIEM, mainly a growing number of government contracts, the revenue generated from self-financing activities at Centro El Almendral is untied and can be spent



freely. Finally, the fact that center operations are open to the public positions CIEM as a significant local actor, with its own place in the community, improving its relationship with other actors. It possesses its own capital, image, and prestige, as well as self-financed activities; it can therefore negotiate on an equal footing with parties demanding its services. Self-financing has allowed CIEM to diversify its funding. Income from these activities supplement donations from foreign and domestic sources (Fondo de las Américas).

#### *7.4 Relations with Stakeholders and the Public*

Self-financing has expanded and diversified CIEM's relations with the public significantly. Activities at Centro El Almendral have attracted growing numbers of people, and organizational clients have expanded beyond direct beneficiaries of workshops, courses, and advisory services. These newly acquired clients have for the most part become permanent, in that whoever comes to CIEM once tends to come back for other activities.

Another major impact of self-financing has to do with donors and their relationship with CIEM's financial diversification strategy. In general, both government and foreign donors require some form of contribution of local matching funds. In practical terms, no single project will finance all operations or a complete activity cycle. CIEM was able to obtain funding from FONDART to operate the movie theater and teach courses on film appreciation. That, however, required restoring the movie theater (which was done with donations) and having experience in relations with the public (which was gained through self-financing). The same applies to government financing of training courses, which assumes the organization's ability to cover the overhead and maintenance costs of the site where the courses are held. Hence, having independent means is key to obtaining other forms of funding.

Regarding relations with staff, CIEM has invested in hiring personnel specializing in commercial management, which has entailed a margin of risk and has caused internal friction. Today, with the exception of the café which is managed by someone skilled in this type of business, CIEM program staff manages all self-financing activities.

CIEM does not work with volunteers, nor is it a membership organization, and therefore self-financing has no impact on those areas. The same applies in regard to peer institutions: given the small number of NGOs in the field where CIEM operates, there is no competition or conflict among them. Rather, CIEM has paved the way for nongovernmental action in areas unexplored by others.

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## 8. Effects of Self-Financing on the Organization's Financial Situation

### 8.1 Description

The goals proposed by CIEM for self-financing include achieving autonomy and covering costs not normally covered by projects. To this end, services and products are now offered to a medium-income public that is in a position to pay for them. At the same time, activities continue to be offered to low-income sectors, subsidized by the state or international agencies. CIEM's quantitative goal for self-financing is to generate between one-half and one-quarter of its operational costs (not including services rendered to the government). There is no intent to produce profit, only to enhance the organization's sustainability and autonomy.

As mentioned, the activities that have shown the greatest profitability are those linked to the CIEM mission: capacity-building and training offered to sectors that can afford to pay for them (businesses in the environmental sector, artistic and trade workshops on CIEM premises), plus artistic and cultural offerings at Centro Almendral (movie theater, art gallery). In these activities, as in the income from rental of the premises and interest on investments, the organization benefits from its assets – both its hard assets (building, equipment, etc.) and the skills and know-how of the staff.

Some activities have proved more profitable than others. CIEM, however, does not separate activities according to income-generating ability. A single accounting system is used across the board and results are expected to balance overall financial performance. Some activities cover their own costs and produce a surplus to subsidize others. Generally speaking, the costs of operating the art gallery and movie theater are low. When movies are shown elsewhere with equipment rented from the center, the resulting profit helps to subsidize the cost of showing movies at El Almendral. The most lucrative activity is teaching courses and extension workshops, which have generated enough revenues to cover the salary of one coordinator who in addition does other work for CIEM.

Non-mission related activities that were attempted (the café and sales of workshop products) turned out to be much less profitable, owing to lack of experience among the staff. At the same time, such activities tended to keep the team away from the mission, causing resistance among them. These activities were therefore either discontinued (sales of workshop products) or restructured (the café). The handicrafts store purchases items from local artisans and sells them for a slightly higher price, generating a low profit margin. To date, the store lacks a promotional or investment strategy aimed to improve profitability. It is, rather, an outlet for local crafts, which at least incurs no losses and certainly coincides with the overall mission of the center.

In terms of financial management, the main focus has been on avoiding losses. This requires a more rigorous and earnings-oriented financial analysis of the activities undertaken. Nevertheless, as happens in many small organizations, while the

The goals proposed by CIEM for self-financing include achieving autonomy and covering costs not normally covered by projects.

This led the CIEM director to say that the main obstacle the team had to face was its own lack of experience and staff to appropriately combine its mission orientation and commercial orientation.



team has become more efficient in terms of cost-effectiveness, it has had to manage a growing number of tasks, leaving little time for cost-benefit analysis.

To the extent that CIEM did not acquire debt on starting operations and has managed to keep up an acceptable level of profitability, income projections are positive. It is possible that self-financing can generate higher revenues, particularly if support is obtained to expand the current activities.

### **8.2 Financial Performance**

CIEM's first self-financing strategy was offering training and advisory activities in areas in which it had experience (i.e. microenterprise, environmental protection). In terms of impact, however, the most important activities have been those conducted at Centro El Almendral, which were possible thanks to a major restoration project involving the parish house next to a church that was declared a national monument. The architectural value of the whole project (including church and parish house), its large size, the high-quality restoration, and its location (at the exit from San Felipe, facing a popular restaurant for tourists, and next to a winery and sales outlet for local wines) make the center an ideal locale for meetings, cultural activities, and sales. As observed earlier, there is no comparable place in the area, which undoubtedly increases the value of the center. In essence, there has been a transfer of assets from the Roman Catholic Church to a nonprofit organization under fully autonomous terms (although it is not a donation but a gratuitous loan agreement). The unfailing support of the bishop is another asset, given the role and prestige of the Roman Catholic Church in the country and the area.<sup>6</sup>

CIEM has implemented self-financing without incurring debt. The organization has undertaken each activity thoughtfully, using its own resources, clients and contacts to start and develop each venture. The organization has not conducted market surveys for its products and services, nor does it have a business plan. A brief market survey was performed for the café; in all other cases, decisions arose from the creativeness of the professional team.

CIEM's financial returns were negative in the first period, broke even in the second, then dropped again in the third, owing to higher costs brought about by new investments. Total assets, however, have increased, and some (machinery, paintings) could easily be sold if necessary. CIEM's financial management procedures are not sophisticated; the organization uses an accrual accounting (based on cash in and cash out) system with separate cost centers for each activity.

### **8.3 Sustainability**

CIEM's main source of sustainability is its accumulated assets and its ability to use them to produce income. CIEM's strategy has succeeded in expanding its mission and positioning CIEM as an important actor in the cultural and training environment of the area.

CIEM has a small reserve fund equal to the value of paintings donated by artists who exhibit their works at the art gallery. The organization can also easily liqui-

The organization has undertaken each activity thoughtfully, using its own resources, clients and contacts to start and develop each venture.

<sup>6</sup> The Roman Catholic Church played a major role in supporting the emergence of nonprofit organizations during the military government (1973–1990). After the dictatorship, Church activities in many dioceses refocused solely on pastoral work and worship and abandoned efforts in social development. This was not the case in the diocese of San Felipe, where the bishop continues to work actively on behalf the poor. He not only obtained the funds for the restoration of Centro El Almendral, but he maintains permanent stable links with CIEM, both personally and as the representative of the Social Action Department of the bishopric on the CIEM board of directors.



CIEM's main source of sustainability is its accumulated assets and its ability to use them to produce income. It is worth mentioning that CIEM's strategy has succeeded in expanding its mission and positioning CIEM as an important actor in the cultural and training environment of the area.

date some assets if necessary. Financial risks to CIEM have arisen mainly when the organization has engaged in operations for which it has little capability. The fact that CIEM has not incurred debt in these cases lessens this risk. The other cause of risk is the difficulty of recruiting and keeping a team capable of appropriately combining mission orientation with commercial orientation.

The building which houses El Almendral does not belong to CIEM and hence cannot be counted as an asset, used as collateral for loans, or disposed of in any way. Nevertheless, CIEM is entitled to use it directly or as a means to produce earnings. Apart from the reserve fund, CIEM has no endowment-building strategy, and though the team is interested in reaching that stage it has made no move yet in that direction. This may limit future sustainability.

#### ***8.4 Financial Diversification***

Self-financing as a percent of total funding has increased steadily over the past three years, to 52% in 1998 (2% over the goal set) and 68% in 1999. CIEM applies a wide spectrum of self-financing strategies, which spreads the risk in the event that one of them should fail.

Moreover, CIEM continues to obtain funds in the form of domestic or international donations, which may recede as international assistance continues to withdraw from Chile. It is also a recipient of government contracts, a source of income that CIEM itself would like to see decreased because of the bureaucratic difficulties and lack of autonomy such contracts entail. These combined sources of financing do not bring on any internal difficulties; rather, self-financing partially depends on them. They place CIEM in a promising position in terms of sustainability and financial diversification.



## *Conclusions and Lessons Learned*

CIEM's first efforts to develop as an organization were supported by government funds. The organization received this support as part of its mission-related work with microenterprises. These funds, however, were not sustainable. The organization then formed a corporation as part of this same project. That option was made possible by two factors: the decision made by the bishop of the diocese to transfer to CIEM, under gratuitous loan, the premises of the old convent at El Almendral, and the ability of the team to associate its regular activities, which were carried out with government funding for social programs, with construction of an independent institutional project of regional scope: the Centro de Artes y Oficios El Almendral.

The restoration and acquisition of the center entailed developing a vision beyond merely executing contracts to provide assistance to certain sectors of the poor, the main thrust of government support. CIEM therefore developed an education and environmental protection program area and an arts and culture program area; developed capacity-building activities in the trades (beyond the coverage provided by courses offered under government programs); established a tourism area, linking it to protection and appreciation of the natural and cultural heritage of the region; and made its center, of great heritage value, available to the regional and national community for educational and cultural purposes. This vision was developed and conducted by Jorge Razeto, a local anthropologist, who has organized a team that is small but highly committed to CIEM. He has attracted professionals from Santiago who have decided to move to Aconcagua in order to participate in the innovative and futuristic CIEM projects.

The sustainability of the efforts so far is still uncertain. The main elements of support during this period include the commitment of the bishop to support the consolidation of an institution not belonging to the Roman Catholic Church and to transfer resources to it; the ability to execute contracts with the public sector that have been deemed innovative and of high quality; the ability to use the funding from such contracts to restore and develop Centro El Almendral; and the growing ability to obtain independent funds through mission-related activities (courses, workshops, movies, sale of handicrafts, use of the center's infrastructure).

CIEM has proved capable of directing its institutional development while implementing a funding strategy with substantial self-financing components and laying a foundation for sustainability. These combined strategies have increased both CIEM's autonomy and its management efficiency, while consolidating the institution as a major local and regional actor. This is because its activities, especially those conducted at Centro El Almendral, are open to the community and provide services that cannot be obtained elsewhere.

CIEM's self-financing activities are not part of a preconceived plan but rather stem from a desire to build an organization with more autonomy. The entry point for any self-financing strategy undertaken by CIEM is that it must further the organization's mission. In other words, no strategy is pursued for the sole purpose of obtaining resources. And this approach seems to work. However, CIEM has no system in place for evaluating the profitability of individual activities or the advisability of approaching new areas. To implement such a system, the organization needs more technical and financial assistance. Internal organizational reflection on ethical and mission-related challenges has obviated some of the difficulties that usu-



ally arise in such cases. The end result has been a stronger sense of mission and a gradual development of administration and management capabilities. The organization still lacks the ability to conduct self-financing activities as separate businesses and to measure the expected returns from each.

### *Epilogue*

Research on CIEM's self-financing activities was mainly conducted in late 1999 and early 2000. Additional information on developments in the year 2000 was obtained and incorporated into the case in early 2001. In general terms, 2000 was a financially difficult year, during which almost no new donations or government contracts were obtained. Government funding was limited owing to fiscal adjustment policies and less availability of resources as a result of the 1999 decline in economic growth. In response, CIEM laid off some staff and instituted shorter working hours and even voluntary salary reductions for others. This reduced the level of activities at Centro El Almendral.

CIEM negotiated a three-year donation from a foreign foundation (AVINA) for an institutional development and consolidation project. The project began in late 2000 and covers three areas: 1) An arts and trades school to be located in the rear courtyard of the center, including the current workshops; 2) an extension program involving the movie theater, gallery, courses, and events; and 3) an ecological tourism project that will foster appreciation for the natural and cultural heritage of the Aconcagua Valley, to be carried out in conjunction with other organizations in the region.

With this support, CIEM has a window of opportunity to more fully develop its self-financing activities and to implement a financial sustainability plan. Through a more systematic business planning process, the organization can determine which of these activities are feasible businesses and should be developed as such to generate profit for the mission-related activities of the organization.

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This case was prepared by the Nonprofit Enterprise and Self-sustainability Team (NESsT), an international nonprofit organization with offices in Budapest, Hungary and Santiago, Chile. NESsT is committed to strengthening the financial sustainability of civil society organizations (CSOs) working for social change and development through the development of self-financing strategies that both generate additional income and further the missions of CSOs.

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