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Nonprofit Enterprise and Self-sustainability Team (NESsT)

Casa de la Paz

Diversifying Funding Sources by Generating New Clients

Casa de la Paz was founded in 1994 by a group of 15 persons motivated by the desire to empower individuals to improve the quality of life in Chile by caring for the environment and fostering democratic relations. With the decrease in international assistance to Chile, Casa de la Paz realized it needed to generate its own revenues and decided to begin charging for its training and consulting services. At first, the organization offered a "basket" of goods and services. When it found no buyers, it switched to a client-oriented strategy that caters to the needs and interests of its clientele. Casa de la Paz's self-financing strategy has diversified the organization's funding sources by generating two new types of clients: private for-profit companies and public agencies. The organization has creatively managed concerns about its decision to charge for its services and criticism of its relations with companies perceived to be environmentally unfriendly. These steps, according to Casa de la Paz, have ensured its sustainability and strengthened its mission by involving new actors linked with the environment.

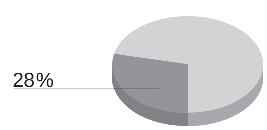
CASA DE LA PAZ

Location
Santiago, Chile

Fields
- [ ] Culture
- [ ] Education/Training
- [x] Environment
- [ ] Health
- [ ] Social Services
- [ ] Community Development
- [ ] Other

Annual Operating Budget (1998)
CLP 206,592,875[1]
US$ 413,186 (approximately)

Percent of Self-financing



Self- financing methods used
- [ ] Member Dues
- [x] Fees for Services
- [x] Product Sales
- [ ] Used of Hard Assets
- [ ] Use of Soft Assets
- [x] Investment Dividades

This case was prepared by NESsT with the assistance of Gonzalo de la Maza, Sociologist, Independent Consultant and Director of the program on Citizenship and Local Management of the National Foundation for Overcoming Poverty.

1. Institution background

Casa de la Paz (House of Peace, hereafter "CP") was founded in 1994 by a group of 15 persons motivated by the desire to empower individuals to improve the quality of life in Chile by caring for the environment and fostering democratic relations. It focuses on environmental education, citizen participation, and conflict resolution, primarily by training leaders who act as multipliers and in turn train others and through the production and dissemination of educational materials.

Activities are conducted in the areas of environmental education and citizen participation through workshops and publications designed for teachers, nongovernmental organizations (NGOs), and the general public. Since 1995, CP has issued a monthly journal (Mosaico, 2,000 copies) dealing with key environmental matters and a quarterly report (Acuerdos, 1,500 copies) focusing on resolution of environmental disputes.

CP is coordinator and responsible for the secretariat of Red de Acción Ciudadana por el Medio Ambiente (Citizen Action Network for the Environment), a network composed of 52 NGOs working to control pollution in the Metropolitan Region (Santiago).

CP is well known for its efforts in resolving environmental disputes. CP holds workshops and organizes debates on such issues. It also acts as a consultant and project developer for the government, private, and international sectors.

In legal terms, CP is a private nonprofit foundation managed by a 10-person board of directors. Its chairperson is also executive director and founder of the institution. Her husband, a former government official, is also on the board. The staff is composed of 7 full-time salaried employees, 21 persons hired full- or part-time on a fee basis, and 2 nonsalaried volunteers.

2.Financial Information

2.1 Income

In 1998, the budget amounted to Ch$206.592.875 (approximately USD 413.186). Of this total, 71.5% came from donations, of which 38.3% were foreign donations, 18.2% government donations, and 15% corporate donations. The balance (28%) was generated from self-financing activities, namely fees for services (17.3%); sales (7.4%), whether direct or through CP's private publishing company; and interest on investments (3.8%). Similar percentages were projected for 1999, although income from fees for services charged to the government was predicted to be higher than income from workshops for NGOs.

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

2 The first organizations concerned with the environment and sustainable development began to work in Chile in the late 1980s. Previously, nongovernmental organizations were oriented toward resolving problems of human rights, subsistence, and local development, with no special emphasis on the environment.

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2.2 Expenses

In 1998, CP spent 25% of its budget on direct administrative and fund-raising costs. The balance (75%) went to programs and other activities. These percentages were similar to those of 1997. In 1999, however, 32% went to basic costs and 68% to programs and activities. CP has 7 permanent staff and organizes teams of professional consultants for its 18 to 20 projects per year. CP makes every attempt to keep these professional consultants occupied full-time on a steady basis.

Table 1 ***Sources of funding (1997-1999)***
(percentage of total)

	1997	1998	1999
International sources			
Foreign/international donations	32.7	38.3	40.5
Public sources			
government donations	23.1	18.2	22.0
Private sources			
corporate donations	13.9	15.1	13.5
Self-financing			
fees for service	19.0	17.3	4.1
product sales	8.6	7.4	16.4
interest on investments	2.7	3.7	3.5
TOTAL	100%	100%	100%

3. Self-Financing Activities

In the mid-1990s, when assistance from international donors began to decrease, CP made the decision to initiate self-financing activities, mainly by selling its products and services. Although the organization currently still receives 60% to 70% of its income from donations, many of these donations are for specific products and services provided by Casa de la Paz and in some respects are a form of self-financing.

In terms of self-financing,the funding source is as important as the funding strategy.

Table 2 ***Types of Self-Financing***

Form of self- Financing	***Description***
1. Product sales	As part of its mission, Casa de la Paz produces and sells educational materials on environmental issues. Production is supported by donations for specific projects as well as fees charged by CP's own for-profit publishing company, Editorial Puerta Abierta. The company recoups its production investment and uses earnings to produce new publications or new editions of publications.
2. Fees for Services	CP sells workshops and seminars for a fee to public and private institutions. Some of these workshops are offered on a contract basis as requested by clients, while others are designed by CP to respond to needs of various audiences. CP charges 0% to 20% for its overhead costs, depending on the client. This surcharge helps to pay for monthly operating costs, which amount to USD 10,000.
3. Interest on investments	Interest on CP has a reserve fund; interest earned on this fund is applied to operating costs.

CP considers itself approximately 60% to 70% self-financed, because it considers the funds received from both public and private sectors fees, not grants, paid by clients for specific services. The funds generated by these services cover both program and overhead costs. NESsT, on the other hand, makes a distinction between funds obtained from sales of goods and services and donated funds, since in terms of self-financing, the funding source is as important as the funding strategy. However, this difference in interpretation is also due to the fact that income from self-financing is taxed in Chile, and many CSOs prefer to receive payments in the form of donations.

4. Start-Up

A decline in foreign assistance in the early 1990s was what motivated CP to seek new ways of generating income. From the start, charging for services was an important strategy for the organization. An attempt was made to market a defined set of CP services, primarily to international agencies and corporations. This approach proved unsuccessful because it did not meet the needs of these entities.

Support was obtained in 1997 from a public relations agency (where the founder of CP had been a partner) to conduct a campaign called “Invest in a good business opportunity,” seeking ongoing funding commitments from colleagues, sponsors, and benefactors. These efforts to attract stable contributions were not successful either. Again, the reason was that what was being offered did not meet the specific needs of these groups.

The current strategy is to offer services geared to the needs and interests of the client, whether public or private. Using the organizational mission as a starting point, CP discusses the specific needs of each client and offers a tailored package of services. Fees for these services include an amount for overhead, geared to each client's ability to pay, which helps to pay for the costs of running the organization. This source of financing is supplemented by cash and in-kind donations.

When the founder retired from her successful job in public relations, she organized Editorial Puerta Abierta, which published books for large private corporations on a commission basis. Earnings from book sales were used to establish CP's reserve fund, which accrues interest and serves to cover cash flow problems. Each time that funds have been withdrawn, CP has been able to replace them, and the reserve fund has been maintained at the original amount of USD 10,000 for the past 10 years.

5. Management

Except for Editorial Puerta Abierta, CP has not organized a separate structure to manage funds from self-financing. A marketing expert was hired to execute the 1997 fund-raising campaign, but when the effort was discontinued, that person's contract was not renewed. Self-financing is directly tied to programs and therefore the funds are managed by program staff. The organization has adjusted team operations to make each team directly responsible – through the project manager – for all project-related matters, including finance.

CP adopted a very flexible structure, capable of adapting to changing market needs. The core staff is composed of seven individuals: the program area director, two administrative assistants, one accountant, one receptionist, one cleaner, and one dispatcher. The project managers oversee the operating structure, develop projects, and have overall responsibility for their projects. Like the rest of the noncore staff, they are hired as professionals on a fee basis to execute a specific project, and their contract expires upon completion of the project.

As a way to alleviate the unstable employment situation of the staff, the structure was reorganized on the basis of four areas: environmental education, citizen participation, land management, and administration. Teams have become interchangeable, resulting in greater interdisciplinary work and internal team cohesion. The practice of having area directors act as project managers was discontinued because it limited management opportunities for more junior staff. In addition, as CP undertook more and more projects, the area directors became overburdened. The result was an increasing number of projects that were executed with little supervision. To remedy this situation, it was established that junior staff would act as project managers (one project each) and would in turn contract a certain number of hours of advisory services from the area directors. Thus the area directors have supervisory responsibility for all projects and each project receives priority attention from an individual staff member.[3]

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Another strategy designed to overcome job instability is job-sharing, whereby two persons with similar skills share one job and salary.

3 Recruitment procedures were also modified in the recent past to include some compensation for students who initially came to perform voluntary work, write theses, or complete their undergraduate practice. Some of these students have become project managers under the supervision of one of the area directors. This has added new disciplines (e.g., anthropology, psychology, sociology, pedagogy, journalism, geography, urban planning, preschool teaching, environmental engineering) and brought in "fresh blood" eager for innovation. In turn, area directors have felt compelled to continually explore new initiatives.

Another strategy designed to overcome job instability is job-sharing, whereby two persons with similar skills share one job and salary. This enables both employees to remain employed when there is work for only one person and to handle a heavier workload when there is work enough for three. Salary levels are based on an average amount acceptable to both persons.

Each project receives administrative and financial management (project presentation, legal documentation, etc.) support from the core staff. The team is financed by the overhead surcharge applied to each project. This charge differs according to the type of project involved (see below). However, the number of projects that CP is capable of managing (averaging 16) is not high enough to finance the costs of the core staff, even though the executive director does not draw a salary, since she has other sources of income.[4] When she does earn a fee for her consulting work, she donates the earnings to CP. These funds are used to give the staff educational bonuses as well as to pay for holiday festivities.

4 If CP were to apply a 10% overhead charge to all projects, the organization would be able to sustain 50 projects simultaneously.

6. Policies and Legal Framework

In Chile, CSOs may conduct commercial activities but must pay income tax[5] 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 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.

5 Income tax or first category tax applies to all companies generating profits. The rate is currently 15.5% but will increase incrementally until it reaches 17% in 2004. The rate of 17% has already been mandated by Chilean legislation and this case study will subsequently refer to this rate even though the first category tax is at a lower rate at the time of the study's publication.

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.

CP is governed by the regulatory framework for nonprofit foundations, which allows it to charge for its services provided that all earnings are ploughed back into mission-related activities. To date, it has not applied for the exemption on income tax under Article 40(4), but it would not be likely to receive this recognition even if it were to apply as its environmentally-oriented activities are not traditionally associated with welfare institutions.

Editorial Puerta Abierta publishes CP's various publications, but it is legally organized as a for-profit business distinct from CP itself. It is required by law to pay first category tax of 17% on its profits, but the publications are usually priced at rate affordable to other CSO clients so the business generally manages only to break even and has no taxable income.

With the exception of a few exemptions, all entities—for-profit or nonprofit alike—engaging in commercial activities collect value added tax (VAT) of 18% 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 (paper, ink, etc. in the case of Editorial Puerta Abierta) by submitting receipts to the Treasury. VAT applies in this manner to Editorial Puerta Abierta.

CP manages the majority of its training services for its nonprofit, government, and for-profit clients as mission-related projects whose costs are covered by the recipient organization in the form of a donation to CP. Managing the trainings as a mission-related project rather than a service is a notable contrast to CP's approach to the trainings as services tailored to the specific client, but this management form entails a significant financial advantage for CP. Although the funding for these programs highly resembles a fee for service, since the revenues go directly to pay for staff salaries or materials related to the training, CP does not pay first category income tax on this income because technically it is considered a donation. Similarly, VAT does not apply in these cases because CP's activities are considered mission-related projects rather than an offering of services, for which VAT payments are required. CP's for-profit clients also do not pay taxes for these training services because they are classified either as a business expense or a tax-deductible donation.

A small proportion of CP's training services are managed as such. For these activities, CP must pay both first category income tax and VAT as they apply by law, and CP's clients may not count them as a business expense or tax-deductible donation. In practice, the taxes CP incurs from these services have been low since the services rarely generate a significant profit and since the organization can usually recuperate most of its VAT payments. Nevertheless, CP has moved increasingly away from managing its trainings as services to managing them as mission-related projects supported by donations in part because of the financial advantages associated with this latter classification.

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7. Effects of Self-Financing on the Organization

7.1 Mission and Values

In general terms, CP believes that it has strengthened its capacity to fulfill its mission, largely because self-financing has allowed it to partly offset a decline in funding from international cooperation agencies. The self-financing strategies adopted (sales of products, service charges, and interest on investments) have not steered the organization away from its programs and fall within the parameters of CP's mission. The impact of self-financing on the mission of CP has to do mostly with internal organizational changes that have taken place owing to changes in the funding sources and strategies of the organization.

Of the three self-financing strategies used by CP, interest on investments has no relation to the mission, while sale of products brings about no changes, because, strictly speaking, it is only a way to obtain financial returns for materials originally produced for projects supported by donations. In other words, product sales are a byproduct of programs and pose no mission threat. The third strategy, charging fees for services, does raise issues concerning the organization's mission.

The first mission related issue is the very idea of selling goods and services. When first adopted this raised strong objections from certain members of the staff who were unaccustomed to charging their clients for services and felt that environmental education should be offered free of charge. However, the board of directors, including the executive director, felt strongly that if CP did not begin to charge for its products and services, that the organization would not be able to sustain itself, and would ultimately have to close its doors. So, they kept to this decision despite the loss of key personnel.

The second issue is the fact that selling services brings the organization into direct contact with the private sector in the sensitive area of environmental awareness. The organization received some criticism for this, both internally and externally. Again, the board of directors felt that this was a constituency that it could not ignore neither as a major client nor as a key constituency of its newly redefined mission. Originally, CP focused strictly on environmental protection. Later, and during the time the organization began to adopt its new self-financing strategy, the mission itself was redefined with a view to "reconciling environmental protection with the need for social equity and economic production." This new definition allowed CP to expand its identity from that of a civil society organization working strictly on environmental awareness to one that is working on issues of interest to two other specific groups: social equity, of specific interest to the current government, led by Concertación de Partidos por la Democracia[6], and economic production, of specific interest to the business sector.[7]

The present mission definition has a clear nonconfrontational profile and seeks to harmonize elements that would, under certain circumstances, often clash with

6 Concertación has been the governing coalition since 1990. Its strategy is defined as "growth with equity," and the coalition develops manifold public programs designed to introduce equity into Chile's economic development.

7 The single most serious criticism leveled by business (especially big business) against environmental organizations is that their concerns are based on standards designed for wealthy countries (i.e., that they are based on an "anti-development ideology") and that they inhibit economic development. Therefore, CP's open attitude toward working with business distinguishes it from other nonprofit organizations, which are perceived to be opposed to business and with which business normally does not cooperate.

one another. CP's mission has expanded to include the resolution of disputes as a priority working strategy. There is thus an aspect of the mission now that allows CP to work with actors that may become sources of financing.

CP approaches each of its constituencies, whether NGOs, public agencies, or private companies, as a source of prospective clients. As a result, the organization believes that most of its projects are actually services, and therefore most of its income comes from the sale of services. Its view of self-financing is quite broad, based on a belief that the services it offers are meeting an existing demand, whether in the government sector, international cooperation, or private enterprise. Initially, CP tried to sell its already existing set of services, or " basket of goods," including workshops, publishing production, and teaching manuals. This strategy was unsuccessful, however, and made CP realize that it had to develop a client-oriented strategy. This strategy entails first determining the need of the potential client and then responding to that need, within the mission and programs defined by CP.

Despite the decision that charging fees for services does not counter the CP mission, tensions often arise because the services demanded by customers do not always coincide with CP's organizational and developmental goals. Relations with the public sector are an example. The way to obtain public-sector resources is to compete for projects or participate in calls for tenders.[8] These calls for tenders are a way for the government to outsource some of its activities. In the areas where CP works, public-sector pressure to implement the largest number of projects at the lowest possible cost and in the shortest possible time hinders the development of high-quality project proposals. In addition, the usual payment method of the public sector (a single payment upon completion of the project) often raises cash flow problems for the organization.

As far as the government is concerned, CP is a consulting firm like any other and the criteria for awarding it funds are the same: no distinctions are made because it is a nonprofit organization or because its staff is motivated by a mission. Furthermore, public-sector budget planning procedures have so far prevented

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Box 1 Balancing, Mission and Market

According to Ximena Abogabir, executive director, the balance between mission and market is achieved in three ways. First, CP does not involve itself in any project that does not fall within its mission, which is to "empower organized individuals to improve the quality of life by caring for the environment and democratic relations." Second, every project must fill a market need, that is, there must be a group of people who desire and require the service or product offered. In some cases, the market will provide the means to purchase the service or product; in others, CP will find financing to respond to that market need. Third, the organization must possess the ability and knowledge to respond to the need. No services are offered for which CP has no competencies.

Use of the above formula when making the decision to execute a project prevents CP from becoming client-driven and ensures that the organization possesses the capabilities and financing to undertake such activities and advance toward self-sustainability. This attitude enables CP to be in closer touch with market conditions and to work with new customers, especially private companies and public agencies, which play a key part in mission fulfillment.

8 Project competitions tend to be more open to the initiative of the organizations submitting the projects. The government defines the purpose, geographic area and some features of the projects to be submitted, and organizations develop them. Tenders, on the other hand, are addressed to consulting agencies, which are asked to provide a given service, and awarded on a competitive basis. The consultant tendering the lowest bid should win the contract.

awarding funding for actions and programs of more than one year's duration; any funding obtained once must be tendered for again the following year.

Indeed, as already mentioned, some members of the professional staff felt that charging for services and seeking clients that could pay for these services ran counter to the organization’s mission.

Regarding the business sector, CP has established relations with corporations operating in very sensitive areas vis-à-vis its primary mission (an oil company, a forestry company, and a mining operation). Furthermore, it has set up permanent alliances with these corporations. Questioned about the threats such arrangements pose for an institution working in favor of the environment, Ximena Abogabir, CP chairperson and executive director, says, “Shell is a customer, but is aware that it cannot influence CP. If they started demanding unreasonable things, we would no longer work with them. Those who knock on our door know that their intentions must be compatible with our mission.” CP has not developed a set of explicit criteria to define what is “reasonable” in this context; rather, it is a feeling shared by the organization’s leadership. Moreover, the organization’s decision to work with certain customers is based not only on activities conducted in conjunction with Casa de la Paz, but also extends to a broader understanding of the company’s operations, for instance, whether it adheres to ISO 14.001. According to the director, “We would refuse to be involved with a company intending to use us as 'green makeup.' Their honesty and transparency is essential. If we were to 'sell' ourselves to a company that is not truly devoted to sustainable development, our soul would perish. The team would resist it, as all of them come to work at Casa de la Paz motivated by our mission."

Given that revenues derived from self-financing are not enough to sustain the organization, what allows CP to stay within its mission and not become a client-driven organization is undoubtedly the fact that a stable percentage of its financing comes from donations from international sources. These sources allow CP to lobby on such issues as the decontamination of Santiago (the “Santiago, ¿cómo vamos?” campaign), take on areas that are less attractive to the private or public sector, or simply work with clients who cannot afford to pay for its services. These donations have been received from foreign sources such as Fondo de las Américas, a public fund designed explicitly to finance civil society projects. The majority of the fund's managers are former NGO members. The director of CP was for several years the chairperson, and later a member, of the council that administers the fund.

All in all, the organization’s traditional constituency has not been neglected, and clients who do not have the means to pay are subsidized. In fact, CP occasionally abstains from charging the usual overhead if the client cannot afford to pay for it.

7.2 Organizational Culture

At the outset, the introduction of self-financing strategies, particularly the sale of services, was resisted by CP staff. Indeed, as already mentioned, some members of the professional staff felt that charging for services and seeking clients that could pay for these services ran counter to the organization’s mission. The board nonetheless decided to support the strategy, introducing a greater orientation toward competitiveness, client demands, entrepreneurship, and risk-taking.

This decision caused the institution to organize internally along new lines, strengthening those elements focusing on self-financing. The work teams were reorganized and each was made totally responsible for its projects. Stricter budget control and goal achievement criteria were introduced. In the opinion of CP leaders, relations with international donors had previously been characterized mainly by honest use of the funds. Today, the organization must meet more rigorous requirements and has hence become more efficient.

The fact that project managers are now responsible for all aspects of a project has resulted in a new organizational culture in which the staff assume direct responsibility for the institution's work. And although it is difficult to coordinate different projects that receive different forms of financing and must respond to different client needs, the staff are becoming more efficient in meeting client demands and managing work-related costs. The organization is becoming increasingly competitive and must be careful about product and service quality in order to maintain a reputation of excellence in its work.

The major drawback to the project-based strategy is the difficulty of keeping a stable staff and avoiding turnover. And although the changes described above were designed precisely to resolve this problem, there is still pressure to complete one project after another, with little time left for research, evaluation, or systematization of results. Another deficiency is lack of funds for institutional strengthening (training, advisory services, equipment, etc.).

7.3 Autonomy

Diversification of institutional resources has undoubtedly led to greater autonomy for CP, but this autonomy is nonetheless relative. Although the organization is less dependent on international cooperation for its funding, it is now more dependent on client demands. And whereas financing by international agencies was based on a show of confidence, with few management requirements and little impact on organizational culture, self-financing from sales of services entails greater accountability and more rigorous management procedures. CP does continue to enjoy significant institutional development support (from such donors as NOVIB, which supported a strategic planning process, and COSUDE and AVINA, which required a business plan), which reinforces the organization's ability to negotiate better contract conditions with its domestic clients.

7.4 Relations with Stakeholders and the Public

The decision to engage in self-financing activities was made by the board of directors. The decision involved no one else, since the organization has no members who are not directors and its clients have no decision-making power.[9] CP appointed a person from Acción Ciudadana por el Medio Ambiente (Citizen Action for the Environment) to the board in 1999 to represent the users of CP services.

CP's decision to engage in income-generating activities coincided with the government's greater demand for services. This added a paying customer to the traditional

9 This situation is fairly frequent among Chilean NGOs, most of which were formed by groups of professional professionals who were excluded from the government during the military dictatorship. Members were responsible for defining projects and simultaneously acting as directors and professional staff. The great majority of these NGOs did not include their constituencies in their decision-making structures.

Diversification of institutional resources has undoubtedly led to greater autonomy for CP, but this autonomy is nonetheless relative.

customer base that had received CP services for free. In addition, CP also pursued links with the business sector, requiring development of new services to meet its demands. Thus new clients and a new set of services emerged simultaneously.

In general, CP feels that it has developed more and better operations as a result of its self-financing activities. The self-financing strategy does not seem to have altered in any significant way the relations between the organization and its various stakeholders, and CP's image is deemed to have improved among the directors, donors, and volunteers. The directors continue to provide in-kind services, which helps offset costs and allows greater returns from self-financing; the executive director donates her time; her husband, who owns the CP premises, leases them to CP on a subsidized basis; and the vice chairman of the board offers his marketing expertise. The number of donors has not changed since self-financing was adopted. The fund-raising campaign to attract ongoing individual donations was not successful, but this was largely due to low levels of philanthropic giving in Chile and had little to do with self-financing. CP's relations with staff have changed. Following the initial opposition and departure of some staff members, those who have remained support self-financing and have assumed it as part of their work. Self-financing has led to a smaller core staff and the ongoing use of specific individual contracts with outside consultants.[10]

10 This situation exists among many NGOs, which lack mechanisms for financing permanent staff and have had to resort to using temporary contracts.

One of the most successful innovations brought about by self-financing is a new work environment in which employees, rather than perform tasks decided by others, are given the freedom to engage in jobs that are of interest to them and are paid at the highest rate possible.

One of the most successful innovations brought about by self-financing is a new work environment in which employees, rather than perform tasks decided by others, are given the free-dom to engage in jobs that are of interest to them and are paid at the highest rate possible. (Projects that would require very high salaries will not be approved.) Since CP's self-financing strategy is directly tied to its programs, no special staff have been hired, as was done for the member solicitation campaign, which failed to meet its intended goals. Sale of publications is done through Editorial Puerta Abierta, owned by the chairperson and director of CP.

Self-financing has not greatly affected CP's relations with other NGOs and the general public. There some criticism from other NGOs, and community groups which feel that by accepting work from businesses CP had "sold itself" to the private sector. Their impression is that CP was doing this in order to survive, and not because it was part of its mission to provide services to all actors related to the environment. Despite these concerns, self-financing has enabled CP to sustain its work within the framework of its institutional mission, hence allowing the organization to retain a degree of leadership in Red de Acción Ciudadana por el Medio Ambiente as well as a significant public presence. According to Ximena Abogabir, "Today many NGOs, networks, and even public agencies invite CP to share its experience, which we gladly do, as this outreach is also part of our mission."

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

8.1 Description

CP's self-financing strategy is directly tied to its institutional work and aims to make the organization more sustainable through diversified funding. The organization is not attempting to make a profit or even cover all costs, but rather is trying to ensure continuity of the institutional mission in the face of declining international assistance.

Initially, CP sought to self-finance more than 75% of its budget, including all projects and contracts from both public and private sectors. After several years' experience, the target has been lowered to 50%. According to NESsT's definition of self-financing (which excludes grant support of any kind), self-financing accounts for only 28% of CP's income. According to CP criteria, which include all funding for services and projects other than that from international cooperation (including that which comes in as a grant), self-financing accounts for approximately 67% of all income. CP leaders feel that this percentage will continue to rise in the near future as international assistance continues to fall.[11]

Self-financing costs have been kept low because no special staff were hired to implement self-financing and because the compensation of project staff is entirely dependent on the revenue that they are able to generate through contracts. Today, all the staff function as salespeople who identify opportunities and design projects even when they are not going to execute the projects themselves. When someone identifies an opportunity, everybody is called to a creative meeting. Of course each person lobbies for the activities that he or she wishes to carry out, and if the project is approved that person will be first in line when the staff chooses the person to implement it. The core staff are partly subsidized by other personal income, which makes it possible to keep their salaries at a comparatively low level. Sales of publications are made through an associated publishing house which incurs very little cost, and interest on investments carry no financial costs at all.

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Inasmuch as CP's self-financing goals are modest (no market expansion or consolidation is planned), financial returns have remained positive and overall financial performance has been quite good.

8.2 Financial Performance

Before implementing self-financing, CP attempted two other strategies without success. The first sought to promote a "basket" of goods and services in order to obtain support from various international and private (business) sources. There was little demand for this set basket and the strategy failed. The same thing happened with a membership campaign called "Invest in a good business opportunity," which was set up with the help of cooperating businesses. The higher implementation costs of this strategy were mostly offset by voluntary work and corporate support, but the campaign yielded very few positive results.

11 In November 2000 the Netherlands agency NOVIB announced to its Chilean counterparts its intention to withdraw from Chile by 2003.

Today, CP's self-financing strategy is maintained through the promotional and public relations skills of the executive director and by the pursuit of contacts with public agencies and businesses that could potentially lead to contracts or donations. These contacts result in the sale of training and other services, where there are points of common interest with customers and possibilities for joint action. This strategy has proved more feasible for CP, since the sale of services requires no initial venture capital or access to credit.

CP has not carried out any market research for its self-financing activities, although the ongoing pursuit of financing and funding from public and other programs is based on the constant search for market opportunities. Through existing client relations, CP is aware of customer needs and requirements and responds accordingly. In general, CP's products and services are not offered to the public but rather are developed within established alliances. Although it has a strategic plan and short-term action plans in place, CP's true strategy is "to be opportunistic and try to respond to the market."

The fact that self-financing is directly related to CP's mission is a major reason for its success. However, this is only because CP offers high-quality products at low cost. This approach attracts investors, especially from the public sector, but it means that CP must compete for funds with other NGOs working in the same area and with which CP often cooperates.

8.3 Sustainability

CP has no means to achieve sustainability in the long run. Its main financial assets are basic institutional equipment and a reserve fund that would support CP operations for six months – enough, according to the executive director, to organize a "dignified funeral" in the event that funding ran out and CP had to close its doors. There is no strategy in place for accumulating assets or setting up an endowment, although that is what the organization would like to do in the future. For now, the strategy is limited to strengthening financial diversification and improving internal management. CP's dependence on public funding is an area of risk; at the same time, however, the image and history of the organization, together with its members' political and social networks, combine to reduce the risk. The organization's institutional investment primarily takes the form of systematizing and disseminating its work, which reinforces its image and ability to obtain new contracts, and cooperating willingly whenever it is invited to do so by government, business, or other NGOs.

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8.4 Financial Diversification

CP's strategy aims mainly to diversify the organization's sources of financing and replace its dependence on international cooperation assistance. The strategy has been successful, and CP now has funding from many new sources, including corporate donations, public funds, and self-financing. The plan is to continue with this strategy, since international cooperation will undoubtedly continue to wane.

Currently, diversification of resources applies mainly to forms or sources of funding, rather than the types of strategies used. The emphasis is on obtaining donations and selling services. It is important for the organization to branch out into other types of self-financing, e.g., rental of hard or soft assets, imposition of membership dues, or establishment of an endowment.

Conclusions and Lessons Learned

Overall, CP's experience with self-financing has been positive. The organization has managed to transition from an NGO supported entirely by international assistance to one in which self-financing plays a significant part, along with foreign donations; domestic donations, both public and private; and service contracts from various NGOs and public and private agencies. These forms of funding are supplemented with in-kind support from the staff and volunteers as well as subsidies from members and leaders of the organization.

To achieve a stable self-financing strategy was not easy for CP, however. The organization attempted two strategies, based on contradictory models, before arriving at a successful result. The first sought to interest buyers in a fixed set of products; the other tried to attract support from members, collaborators, and benefactors. Both strategies emphasized the institutional project and tried to "sell" it to potential sources of financing. Today, CP focuses on seeking opportunities for funding within the general framework of its mission and, in the case of services, responding to the needs and interests of the client.

The current strategy has had a significant effect on organizational culture and practice. It required restructuring the staff to allow each project to support itself. The organization is more efficient and more sensitive to project impact, to the need for cost control, and to existing opportunities. At the same time, the trend toward autonomy in each program area has made institutional coordination more difficult. CP has taken various measures to resolve this difficulty, but the problem of dependence on projects (clients) persists, resulting in a lack of resources to develop the organization itself. Conversely, because it is a diversified strategy, self-financing is not necessarily "client-driven." Donor funds, both international and domestic, allow the organization to underwrite areas such as lobbying, research, dissemination of information, preparation of tenders, and environmental education.

The current strategy's feasibility is due to several factors: 1) costs are partly subsidized by staff and board members; 2) the organization has adopted a nonconfrontational attitude toward defending the environment which allows it to work with both business and government sectors; and 3) there are strong links between CP leaders and other social and institutional networks. CP's very positive public image is also important.

Sustainability is not sufficiently emphasized in CP's self-financing strategy, and there are no mechanisms in place to ensure sustainability in the long term. Rather, the existing strategy allows CP to focus on continuing to develop the organization, expand contacts and areas of work, and improve work efficiency. Investment costs are minor, there is no debt, and there is no cost attached to strategy development. This means that if conditions do not change too much, CP could potentially continue to sustain its work for a long time.

Undoubtedly, the decline in foreign assistance to Chile provided CP with an opportunity to strengthen its funding base. The challenge of having to modify its sources of financing enabled it to innovate without needing to change its institutional mission. CP had to become more effective in its work, and developing relations with the private sector and so acquaint itself with that sector's problems. As the director says, "Perhaps the greatest achievement is the morale of the staff, who are no longer complaining of the change but rather are applying their energy to creativity and internal cohesion."

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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