Nonprofit Enterprise and Self-sustainability Team (NESsT)

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Fundación para la Educación Superior (FES)

Permanent Matching Funds

In the late 1970s, the FES Foundation, one of the largest community foundations in Colombia, established Permanent Funds (PFs) and Permanent Matching Funds (PMFs) as a way to build its endowment and offer a return to the country's civil society organizations (CSOs). CSOs were invited to provide the Foundation with a donation that was 50 percent matched by FES and would become part of the FES endowment; 30 percent of the yields of the total amount would be returned to the donating organization on an ongoing basis at the Consumer Price Index plus 4 percent. By the late 1990s, there were close to 500 PFs and PMFs, contributing to building the FES endowment valued at approximately US$ 42 million. The Funds supported projects in the Foundation's six program areas and many were managed by the Foundation itself. In May of 1999, the Government of Colombia nationalized the Foundation's assets and took hold of the PFs and PMFs. To date, it is still unknown whether these Funds will be returned to the CSOs.

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.

The case was prepared by NESsT in collaboration with the Synergos Institute, an independent nonprofit institute that brings together diverse sectors of society to find new, more effective ways of narrowing the gap between rich and poor. With particular emphasis on countries in Africa, Asia and Latin America, Synergos strengthens the role of philanthropy and citizen leadership in social development. The case study forms part of the Institute's series on Foundation Building.

NESsT and Synergos wish to thank FES for its participation in this case.

1. Organizational Information

From its inception in 1964, as a university foundation with a nominal endowment of less than US$ 2,700, the Fundacion para la Educación Superior (FES) has become one of the most important private community foundations in Colombia and the largest commercial finance company with assets close to US$ 300 million.[1] In its 35 years of operation, FES has accumulated an endowment of over US$ 42 million and given out grants totaling over US$ 100 million.

FES was created in response to the Universidad del Valle's – a public university - need to meet its operational and programmatic funding needs. The university often experienced cash flow problems due to the government not meeting its budgetary obligations. At the suggestion of Julius Stratton, President of the Massachussetts Institute of Technology (MIT), the university established a private foundation and an office for fundraising and development to facilitate and bridge private and foundation funds. The original funders (Colombian businesspeople and U.S.-based foundations) agreed that the Foundation could use interest earned on their grants to pay for operational expenses. In time, the Foundation moved its offices from the university and expanded its mission to include the funding of other universities and eventually to support a broader social development agenda.

FES has become one of the most important private community foundations in Colombia and the largest commercial finance company

Today, FES' mission is to support Colombia's social development by providing support to activities and programs that are educational and scientific in nature and that contribute to improving the lives of all Colombians, but especially to the most vulnerable populations. The groups that most benefit from FES' work are teachers, female head of households, children, black communities and the poor.

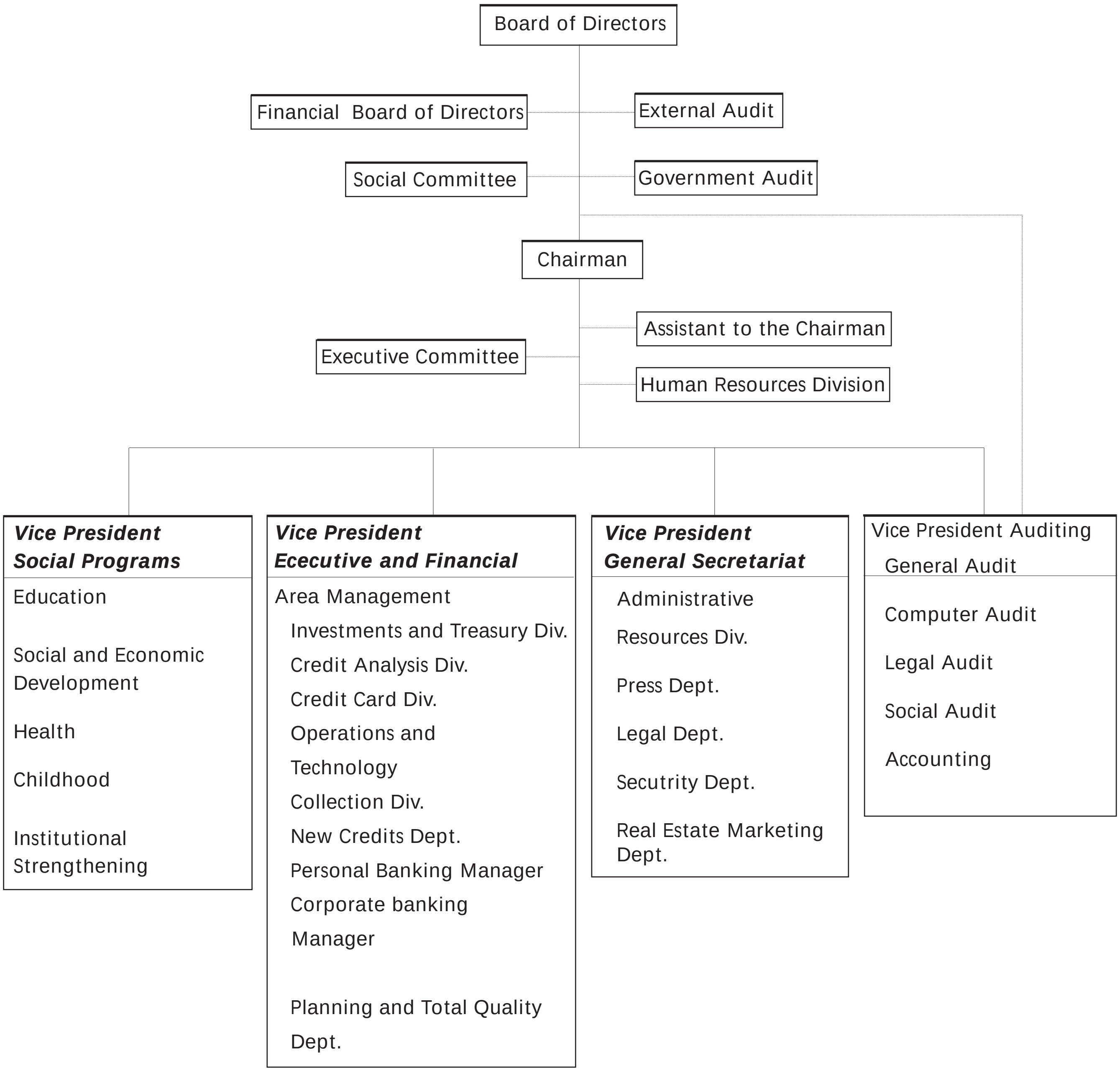
FES works in five key activities: institutional strengthening; research; promotion, management and funding of projects; communication and dissemination; and evaluation. The activities are realized through six program areas: 1) Education; 2) Social and Economic Development; 3) Health; 4) Childhood; and 5) Institutional Strengthening.

FES headquarters are in Cali, Colombia. The Foundation has branch offices throughout the country. In 1975, the Foundation officially became a "commercial finance company" (Compañia de Financiamiento Comercial, or CFC) and began to offer financial services in Colombia without losing its status as a foundation. The revenues generated through these services became a major source of income for the Foundation's social programs and a way for FES to build its endowment and to provide grants to hundreds of organizations throughout the country. From 1975-1999, the Foundation gave a total of US$ 100 million in donations, and over 50 percent of these were from resources generated through the CFC. The remainder came from donations received by FES for its programs and for re-granting purposes.

FES runs both the financial and social dimensions of its work with a staff of 636 employees: 59 work for the Foundation's Social Department and the remaining in the Finance, Accounting and General Administration Departments.

1 This case focuses on only one activity of FES – the Permanent Matching Funds – as this is one key source of revenues that the organization has used to build its endowment.

Figure 1 FES ***Organizational Chart***



Source: FES Internal Documents.

2. Financial Information

2.1 Income

In 1997, FES sources of income totaled US$ 102,676,038. Of this amount, US$ 23,633,680, (approximately 23 percent), came from donations. The major proportion of income, USD 78,184,593, (or 76 percent), was generated by the CFC as self-financing revenues in the form of interest, fees, dividends and rent income. This amount includes revenues generated by the Company's financial services and its endowment. FES also incurred monetary adjustments totaling US$ 857,765, less than one percent of total income. These amounts were not significantly different in 1996.

Figure 1 ***FES Sources of Income (1996-1997)***
(in US dollars)

DONATIONS	***1997***	***1996***
Total Donations[2]	23,633,680	22,799,428
SELF-FINANCING		
CFC earnings (including interest, fees, dividends and rent income) [3]	78,184,593	80,427,560
Total Self-financing	***78,184,593***	***80,427,560***
Other: Monetary adjustments	857,765	910,421
TOTAL	***102,676,038***	***104,137,409***

Source: Internal FES documents

2.2 Expenses

FES spent US$ 51,177,755, (approximately 65 percent of its budget), in financial expenses generated by the CFC and US$ 14,506,981, (two percent of its budget), in financial losses incurred by the Company. Overall operational expenses, including those of the Social Department, were US$ 14,506,981 (18 percent of the budget). The Foundation spent US$ 3,702,758 (approximately five percent of the budget), for donations and social programs. There were monetary adjustment totaling US$ 8,153,579 (10 percent of expenses). These amounts were very similar in 1996.

Income not spent by the organization in 1997 totaled approximately USD 23,721,536. Part of this amount, US$ 11,055,098, represents donations that were allocated to FES' endowment. Another part, US$ 12,666,438 was donations made to FES but not spent during the calendar year.

2 Approximately one half of these donations were made for the establishment of Permanent Funds (PFs) and Permanent Matching Funds (PMFs) discussed in this case.

3 A proportion of these earnings come from FES' endowment which was established through the PFs and PMFs discussed in this case.

Figure 2 ***FES Expenses (1996-1997)***
(in US dollars)

Expenses	***1997***	***1996***
Financial Expenses	51,177,755	54,875,407
Non-operational Expenses (losses)	1,413,429	536,211
Operational Expenses (including operational costs of Social Dept.)[4]	14,506,981	10,867,213
Donations and Social Programs	3,702,758	3,863,937
Other: Monetary adjustments	8,153,579	11,362,717
Total Expenses	***78,954,502***	***81,505,485***

Source: Internal FES documents

4 Social Programs include those funded by the PFs and PMFs discussed in this case.

3. Self-Financing Information

There are two types of Permanent Funds maintained by FES:

Permanent Funds (PFs) are donations made and deposited into the FES endowment with no match from FES. There are currently 30 PFs. Of these, eight of them are Funds that are for FES programs and the remaining are Funds for programs of other CSOs.

Permanent Matching Funds (PMFs) are donations made and deposited into the FES endowment with a 50 percent match from FES. There are currently 409 PMFs. Of these, eight are Funds that are for FES programs and the remaining 401 are for programs of other CSOs.

PFs and PMFs are established by outside nonprofit organizations that donate money to FES. The money is then deposited in the FES endowment and invested in the CFC. PFs and PMFs can take two forms:

Donations made for projects administered by FES: In these cases, 70 percent of the investment dividends are used by the Foundation to fund its administrative costs. The remaining 30 percent is reinvested back into the Fund as apart of the FES endowment.

Donations made by an organization for its own work: In these cases, 70 percent of the investment dividends are returned to the donating organization to fund administrative and institutional development costs. The remaining 30 percent is also reinvested back into the Fund as apart of the FES endowment.

In both cases, the actual donation becomes capital for the FES' endowment as well.

PMFs are matched endowments set up through specific donations received by FES from CSOs, private enterprises, other institutions and individuals. The beneficiary of the PMFs must be a nonprofit organization (or an individual in the case of scholarships). To initiate a PMF, a minimum amount of money established by FES (currently US$ 70,000) must be donated. FES then makes a 50 percent matching contribution to each PMF. This money is then deposited as part of the FES endowment and invested by the CFC. FES incurs a financial cost by guaranteeing a return to each PMF equivalent to the Consumer Price Index (CPI) plus 4 percent. Of these returns, 70 percent is disbursed for the mission and objectives stipulated by that specific PMF. The remaining 30 percent stays as capital in the PMF to maintain a constant and/or increasing value. It is easier to understand the mechanics of

Figure 3 ***Example of a FES Permanent Matching Fund (PMF)***

Donation: US$ 100,000

FES Match: US$ 50,000

Rate of interest: CPI + 4 percent = 24 percent (estimated)

Period (months)	*Capital*	*Accumulated Dividends*	*Dividends for Objectives of the Fund*	*Dividends for Capitalization of the Fund*
0	150.000			
1 month	150.900	3.000	2.100	900
12 months	161.164	37.213	26.048	11.163
24 months	173.158	77.194	54.036	23.158
36 months	186.045	120.151	84.106	36.045
48 months	199.892	166.305	116.414	49.892
60 months	214.768	215.894	•151.126	••64.768

the PMFs through an example (see Figure 3):

Seventy percent of the yield is provided to the participating organization to fulfill the objectives of the PMF and 30 percent of the yield is continually reinvested for the capitalization of the PMF within the FES endowment. Over time, the PMF grows, and the yield received by the participating organization also grows. After five years:

• The participating organization is receiving an annual yield of US$151,126 for its original donation of US$100,000

•• FES is receiving US$64,768 that it can put back into its endowment. The FES endowment, in turn, yields returns in support of the Foundation's work.

It is important to point out that there is an upper limit to the amount that an organization can donate to a given PMF. The matching amount cannot be more than three times the original amount donated (see Figure 4).

Figure 4 ***Example of PMFs Upper Limits***

Donation		**FES Matching**	
100,000	Initial Donation	50,000	50% match to initial donation
200,000	Second Donation	100,000	50% match to second donation
300,000	Third Donation	150,000	50% match to third donation
TOTAL 500,000	Upper limit reached	TOTAL 300,000	Total maximum matching amount (equals three times the initial donation)

Source: Compiled through NESsT interviews, May 1999.

The PMFs are "owned" by FES. They are established under the Foundations' six program areas. Each of these PMFs is administered by a joint Administrative Committee composed of representatives of the nonprofit organization (or another institution creating the PMFs) and FES. However, FES does not intervene in the decision-making process or day-to-day activities financed by a particular PMF. These decisions are left exclusively to the organization that made the donation to establish the PMF. The policy of FES is that PMFs must be created to support activities related to the FES mission. PMF Programs can call on technical assistance from FES staff for social development and evaluation.

The PMFs are a significant donor obligation on the part of FES. Of the US$100 million donated by the Foundation from 1975-99, 20 million was donated to organizations for specific projects, and the remaining 80 million was donated to the Funds as part of the 70 percent endowment yield.

4. Self-Financing Start-Up and Evolution

The first Funds were created in 1977 through the initiative of Dr. Alex Cabo and Dr. Samir Camilo Daccah, two prominent businessmen who sit on the FES Board of Directors. They were originally established as Academic and Scientific Funds ("Fondos Academicos y Cientificos").FES developed the idea of forming the Funds in order to build its endowment and guarantee revenues for its social development work on behalf of individuals, groups and institutions.

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In 1975, the Colombian government authorized FES to operate as a Commercial Finance Company (Compañia de Financiamiento Comercial/CFC). This authorization meant that FES could seek monetary resources in the capital market and make loans. Deposits and loans in these operations were linked to capital accumulation derived from the interest differential and increased FES' earning capacity. This capital accumulation was fueled during the 1982-87 bank crisis and reinforced depositors' trust in "untainted" institutions such as FES. This gave FES the opportunity to

increase its endowment and the amount available for its Funds.
The first Fund was established to finance the education of the children of Dr. Eduardo Moya Tovar, a Colombian judge that was assassinated in the city of Cali. The Fund carries Judge Moya's name. The match guaranteed by the Academic Funds at that time fluctuated between 50-100 percent of the donation received by FES. The guaranteed monthly interest rate was 2.5 percent, adjustable according to market rates. At that point, Funds were not permanent, and the Funds could be terminated based on a unilateral decision on the part of FES or of the donor. The entire amount donated could be returned to the donor. However, the matching requirement component, once established, was permanent and could not be changed unless the Fund was terminated.

By March 1985, the Funds were valued at 694 million pesos (approximately US$ 450,065) representing 49.5 percent of the FES endowment. Colombia bank regulators (Superentendencia Bancaria) then ordered the Funds to be dismantled. According to the Superentendencia, the Funds were not being treated as a donation, since they were being returned to the original donors and thus treated as a profitable investment. FES initiated a thorough review of the Funds to see how the Foundation might preserve their income as donations in support of FES' work.

In August of 1985, it was decided that the Funds would need to be permanent and could not be returned to the original donor. Many of the existing Funds that had been established in support of individuals to that date were dismantled. Only those Funds established for nonprofit organizations and scholarships were retained. In July 1991, the Social Committee of FES established the policy that the interest rate applied to Funds was to be set at the prevailing market interest rate plus one percent. The minimum donation was also set at one minimum salary: 200,000 pesos (approximately US$ 30). FES would guarantee a 50 percent match for each donation received. This new type of Fund would be known as the "Permanent Matching Funds (PMFs)."

In 1998, there were a total of 409 PMFs spanning all of FES' program areas (see Figure 5).

Figure 5 ***FES Permanent Matching Funds by Sector (1998)***

Type of PMF	***Number***
Health and Nutrition	100
Education and Cultural Extensions	113
Social and Economic Development	94
Funding and Evaluation	82
Environmental/Natural Resources	16
Children and Youth	4
TOTAL	***409***

Source: FES internal documents

The PMFs vary in size and scope. The smallest PMF is the Santandareana Society of Engineers (Sociedad Santandereana de Ingenieros) with total capital of US$265. The largest PMF is the Interamerican Development Bank-Capacity-building of

Figure 6 ***Examples of FES Permanent Matching Funds (PMFs)***
(As of April 1999; in US dollars)

Name of the Fund	***Date initiated***	***Initial donation***	***Total capital***	***Yearly Return for Fund objectives***	***Yearly Return for FES objectives***
Education					
Eduardo Moya Tova Education Fund (Fondo Educativo Eduardo Moya Tovar)	5/77	255	1571	9	9
Homes for Young Farmers Foundation (Fundación Hogares Juveniles Campesinos)	9/89	75,464	370,859	884	442
Social and Economic Development					
Support for Grassroots Organizations Fund (Fondo de Apoyo a Organizaciones de base)	8/92	29,831	73,377	497	248
Foundation for Peace and Development (Fundación Para el Desarrollo y la Paz)	1/91	227,108	464,889	3,152	1576
Health and Nutrition					
Cirena Foundation (Fundación Cirena)	1/78	2,503	29,748	103	200
Foundation for the Elderly (Fundación Para la Tercera Edad)	3/86	16,440	46,466	315	158
Environment and Natural Resources					
Ecological Prize/ Carvajal Foundation (Fundación Carvajal/Premio Ecologico)	3/93	10,677	19,249	131	65
Cultural Extension					
Chamber of Commerce Cultural Fund (Camara de Comercio Fondo Cultural)	8/82	1,946	11,655	79	40
Funds and Project Evaluation					
Give Love Foundation (Fundación dar Amor)	9/93	10,679	23,043	156	78
Biological Research Corporation (Corporación para investigaciones biologicas)	5/87	48,962	82,821	1,062	1,277

Source: FES internal documents

One of the dimensions that make the PMFs unique, in addition to the match and yield guaranteed by FES, is that their intended goal is to support the institutional development of the organization or organizations managing the project.

Female Heads of Households (BID-Capacitacion de Mujeres de Hogar) at US$2,588,846.

5. Self-Financing Management

5.1 Selection Criteria

A joint Administrative Committee comprised of FES personnel and representatives from the participating organization administers each PMF. The Social Department manages the PMFs. The Institutional Strengthening Program Area of the Social Department is the first point of contact for organizations that are planning to make a donation and establish a PMF. The selection criteria stipulate that:

a) The objectives of the PMF should be in accordance with FES' own priority areas for social action.

FES social development work is divided into six program areas (see Section 1 above). The PMFs established must coincide with one or more of these areas. In the case of Institutional Strengthening Program Area, the PMFs may be designated for on-going expenses of the organization (e.g., rent, salaries) as well as for institutional development and capacity-building. Although it was always the case that the PMFs established needed to meet the mission and goals of FES, the Foundation is now keen on having the PMFs support projects that, similar to its own, have a very significant social impact.

b) The PMF should support the institutional development of the organizations providing the donation.

FES defines "institutional development" as support to administrative, technical and financial management that to creates conditions of sustainability of the organizations themselves and of their projects. One of the dimensions that make the PMFs unique, in addition to the match and yield guaranteed by FES, is that their intended goal is to support the institutional development of the organization or organizations managing the project. FES is intentionally oriented toward supporting institutional development goals. In addition to financial support, FES also provides training and technical assistance to the participating organizations (most at no or very low cost). The Funds are therefore strategically placed in the Institutional Strengthening Program Area which manages all such efforts for FES.

c) The amount of the initial donation should be such that the above objectives can realistically be met and are therefore established at 500 minimum salaries or more.

Since the 1985 changes in the Funds, the minimum initial donation had been set at one minimum salary (200,000 pesos or approximately US$ 143). However, in 1997, FES took a drastic measure and raised the level to 500 minimum salaries (approximately 100,000,000 pesos or US$ 70,000). This was a tremendous leap, and one that eliminated the possibility for most smaller nonprofit organizations in the country to initiate PMFs. Although smaller PMFs were not dismantled, there have been no more small Funds established since this change.

Increasing the minimum initial donation was clearly tied to FES' own social and financial goals and constraints. Based on over 20 years of experience managing the PMFs, FES' Social Department believes that smaller donations are not appropriate for the PMFs, given their high management and financial costs. The yields generated by a small PMF do not outweigh the costs of managing it financially and administratively. In addition, the impact that such a donation can make is minimal, and also does not outweigh the costs. According to FES personnel, organizations that have small PMFs tend to be smaller and financially vulnerable, and should probably not have their funding tied to FES' endowment or to a monthly return.

d) The social objectives of the PMF should be the result of a consensus-building process, including agreements with national and international organizations, oriented toward supporting projects or programs with strategic goals in the areas of research, individual development, attention to vulnerable groups and sustainable development, among others.

This criterion also reflects an evolution in the development and management of the PMFs. In the early 1990s, FES needed to go out and attract new PMFs. The person who is now in charge of the Institutional Strengthening Program Area was originally hired to establish a country-wide marketing program to bring in new PMFs.

Due to its own orientation to quality and impact as well as the heavy financial and administrative burden imposed by the PMFs, FES is now interested in larger PMFs, and in those in which it can have greater participation. Ana Maria Borrero, Funds Assistant in the Institutional Strengthening Program Area, receives at least 2-3 calls a week from organizations wanting to establish a PMF. However, given the new demanding criteria, the Social Department is averaging only two or three new PMFs per year.

e) The organizations establishing a PMF must have the capacity to respond to monitoring and evaluation requirements in accordance with FES methodology.

FES highlights the importance of impact: all organizations that initiate PMFs must be able to meet monitoring and evaluation requirements. Although the organizations are monitored closely on a day-to-day basis, they must meet certain reporting requirements, and they must be in a position to participate in evaluation and capacity-building requested by FES.

As a result of these five requirements, the nature of the PMFs changed significantly. For example, two PMFs established 1998 were created and administered by FES itself with the cooperation and support of other organizations:

> The FES-BID (Banco de Desarrollo Interamericano) Fund, was started with a US$ 2 million contribution from BID to support the capacity-building of poor female heads of households in Colombia. The PMF is projected to last eight years, and is coordinated by FES personnel within its Social and Economic Development Program Area.
>
> The FES-Ford Fund was established with a US$ 750,000 donation from the Ford Foundation and is designated to support and promote human rights, equality and women in Colombia. In the case of these two PMFs, FES is not only leverag-

The yields generated by a small PMF do not outweigh the costs of managing it financially and administratively. In addition, the impact that such a donation can make is minimal.

ing resources for its endowment, but is also leveraging financial support for its projects.

5.2 Administration

The Institutional Strengthening Program Area is responsible for the day-to-day administrative management of the PMFs. The Area is comprised of three full-time employees who work with all of the other program areas as well as the Finance Department to administer the PMFs. When an organization's request to establish a PMF is approved, the Area's responsibilities include:

Oversee the paperwork to create the PMF both in the Social and Finance Departments;

Categorize the Funds according to program areas and category;

Develop and oversee the signing of the agreement between FES and the donating organization;

Receive and process the PMF;

Work with the Accounting Department to oversee the accounting and financial reports;

Ensure that the participating organizations receive their monthly statements and payment;

Monitor and oversee the use of the PMF (through interaction with the PMF Committee, through visits to the actual organization, and through an annual evaluation form sent to the organization to assess difficulties and progress made to date);

Provide a report to the PMF Committee on all aspects of the PMF;

Process the certification from the participating organizations verifying that they provided a donation to FES for that particular year.

The administrative components of managing the PMFs can be quite cumbersome. The participating organizations receive a monthly payment along with a statement. There are also reports that must be issued to the Administrative Committees on the status of each PMF. The Institutional Strengthening Program Area is currently streamlining their operations, integrating as many managerial tasks as possible into their computer and information systems. In addition to these tasks, the Area is responsible for all of the legal aspects of the PMFs as well as the development and delivery of all training and technical assistance required by PMF personnel.

The nature of the Administrative Committees which oversee the PMFs differ according to three PMF categories:

Category A are PMFs that are part of the FES' social strategy and in which FES participates in both their administration and management. This would include PMFs such as the FES-BID and the FES-Ford. Members of the Committee are personnel from the Social Department as well as representatives from the donating organization. There are only eight PMFs in this category.

Category B are PMFs in which FES participates in their administration but not in their management. Members of the Committee are mainly personnel from the Fund and Evaluation Program Area as well as representatives from the donating organization. There are 37 PMFs in this category.

Category C are PMFs which FES participates in neither administration nor management. The FES role is solely to generate the monthly contribution and report, and conduct an annual evaluation. The majority (364) of the PMFs, are in this category.

The key difference between these three categories is that the first two include large components that coincide with FES own social development mission and goals and, in some cases, are FES administered projects. Category C Funds, however, are allocated to support the operational expenses of participating organizations. These will not continue to grow given FES new application and selection requirements. However, FES is not moving away from supporting operational expenses. Revenues from Category A and Category B Funds also go to support the operational and institutional development of the organizations managing the funded projects.

5.3 Financial Dimensions

The CFC is responsible for overseeing the investment components of the PMFs and must meet the monthly challenge of generating the returns required by the PMFs. According to department personnel, this task can be especially challenging during difficult economic times. In 1998, Colombia's critical economic crisis led the prevailing interest rate to skyrocket, placing FES in a financially threatening situation. The CFC could no longer maintain the rate of interest required by the PMFs as its deposits decreased substantially. At that point, FES changed the guaranteed interest rate to the Consumer Price Index (CPI) plus four percent, thereby easing the burden imposed by market rates. Although there were some negative reactions from donating institutions, there was also a clear understanding that the previous interest rate could not be maintained and could have eventually led to the demise and devolution of the PMFs.

According to Jorge Silva of the CFC, for every one dollar donated to the FES endowment through the PMFs, the CFC must lend out 11.1 times in order to secure the CPI + four percent yield required by the PMFs. However, an 11.1 rate is a very expensive proposition. Most financial institutions lend out at a rate of nine times for every dollar deposited. If the CFC is only able to lend out that one dollar nine times, then it has lost money. For the most part, the CFC has been able to sustain the 11.1 rate of lending.

The match and yield requirements of the PMFs are extremely expensive and oblige the CFC to invest and lend to its maximum capacity. Although the PMFs are a way for FES to leverage maximum contributions to its endowment, they do so at a very high cost to the Foundation's own financial stability. And, although the CFC sees the PMFs as valuable to the FES' own sustainability, it questions the level of costs—basically, the need for a 50 percent match and a permanent guaranteed yield to the participating organizations. A 30 percent match would lessen the burden. The CFC does believe that recent changes in the PMFs have been very helpful. For example, the CPI + four percent yield is much more flexible and attainable than the expensive prevailing market rate. Also, the new PMFs such as FES-BID and FES-Ford gives them some latitude, in that they do not have to generate a check every month to cover the 70 percent monthly yield since they are FES-managed projects.

Although the PMFs are a way for FES to leverage maximum contributions to its endowment, they do so at a very high cost to the Foundation's own financial stability.

6. Policy and Regulatory Environment

A key aspect of the PMFs is that they are tax exempt. Since the moneys are given to FES as donations (and this is certified on an annual basis by each of the participating organizations through a certification process), FES pays no taxes on these revenues. In addition, since they are invested in FES' endowment, and the yields of this endowment are used to carry out the FES mission and goals (as well as those of all of the organizations involved), the PMFs are completely tax exempt.

7. Effects of Self-Financing

Effects are examined against eight indicators developed by NESsT to evaluate the impact of self-financing strategies on nonprofit organizations.

7.1 Maintained or Strengthened Mission:

The venture helped to maintain or further the mission of the organization and did not hurt or impede the mission of the organization.

The PMFs are key to FES' ability to carry out its mission and programs. Due to the steady returns provided through their investment yields, the PMFs allow FES to distribute thousands of dollars in grants and technical support to hundreds of nonprofit organizations throughout the country each year. Except for a few matching PMFs created with international entities, most of the PMF programs are geographically distributed across Colombia, thus increasing the geographical impact of FES as well as its capacity to finance social development and related programs. In addition, the PMFs have permitted FES to build its endowment, guaranteeing yields for its own operational expenses and in some cases for the administration of its own projects.

The PMFs have also become a critical tool for guaranteeing the ongoing existence of many of the donating organizations. This is very consistent with FES' own mission to assist in the institutional development of civil society organizations in

Colombia. According to Ms. Borrero, who assists with the administration of the PMFs, many of the organizations have said that without their PMFs they would probably not have been able to survive very difficult financial periods. They are sure that those funds would have been spent long ago, and there would not be a stream of revenues every month to offset their operational expenses. For Category A and B Funds, the PMFs are a way for organizations to implement projects ensured of some support for their operational and institutional development.

The PMFs do hold some financial risks, and therefore indirectly do effect FES's ability to carry out its mission. Strong economic downturns mean lower yields that in turn mean less available funds for programs and grantmaking.

7.2 Financially Profitable:

The venture generated a financial surplus (or is projected to).

The PMFs have played a key role in addressing FES' original dilemma of how to create an endowment and secure the Foundation's financial growth while at the same time serving its social mandate. By April of 1996, there were 401 PMFs with an endowment value of US$ 10,003,242 (15.425 million pesos) and a capital value of US$ 14,991,569 (23.117 million pesos). The Scholarship Funds had an endowment value of US$ 2,110,894 (3.255 million pesos) and a capital value of US$ 2,252,918 (3.474 million pesos). At that point, the PMFs represented 47 percent of FES' endowment. By 1999, the 409 PMFs comprised slightly over 50 percent of FES' total net capital endowment.

The PMFs' growth and returns depend on the volatility of the market. This reality, along with the fact that FES is obligated to pay a set rate of interest to the participating organizations, means that the PMFs are not always profitable (i.e., they have not always yielded a surplus for FES to spend on its own grantmaking and program needs). According to Oscar Rojas, Vice President Director of the Social Department, FES has sometimes had to dip into its own endowment to meet its payment obligations.

Furthermore, the remaining 50 percent of the FES endowment has been built from investments that have not had a matching or yield requirement, and have therefore been more lucrative for the Foundation. Putting its social mandate before its financial security has brought a certain degree of loss.

7.3 Diversified Funding Base:

The venture helped to diversify the sources of income of the organization.

Prior to creating the PFs and PMFs, FES relied totally on donations to finance its administrative and program goals. The creation of the CFC, and later the creation of PFs and PMFs, allowed the Foundation to diversify its funding base and decrease its dependence on donations only. This opportunity is what permitted FES to build its endowment and thereby to expand its own grantmaking role.

Many of the organizations have said that without their PMFs they would probably not have been able to survive very difficult financial periods. They are sure that those funds would have been spent long ago, and there would not be a stream of revenues every month to offset their operational expenses.

It is important to point out, however, that the PFs and PMFs are themselves dependent on outside donations. Funds are only established with the initial donation from the participating organizations and, in the case of PMFs, with the matching donation from FES. The funding is therefore still highly dependent on outside grants. Because investment yields have been relatively low in the past few years, this dependence appears to be increasing.

7.4 Increased Organizational Effectiveness:

The venture helped the organization to function more effectively (e.g., improved financial management, improved time efficiency, more enterprising, etc.)

The PMFs have definitely contributed to making FES a more efficient and effective foundation. In both financial and administrative terms, the Foundation must act very prudently and entrepreneurially. It must guarantee a substantive rate of return, demonstrate strong social impact and, in some cases, offset its own project administration costs. The CFC works hard to ensure that it is a good lender. The Social Department is keen to ensure that it is an innovative and effective implementor of projects.

Perhaps the most challenging aspect is the need to streamline some of the reporting and payment requirements of the PMFs.

Perhaps the most challenging aspect is the need to streamline some of the reporting and payment requirements of the PMFs. It can be a long and tedious process, requiring monthly payments and statements. As indicated by FES Impact and Evaluation Area Personnel, administration costs of the smaller Funds (Category C) do not outweigh their financial returns. For this reason, the Foundation is now working to streamline PMFs administration, developing systems to make the reporting as automatic as possible.

7.5 Improved Relations with Constituents:

The venture did not negatively impact or improve the organization's relations with any of its constituents (staff, volunteers, board, donors, public, community).

The creation of the PMFs was met with a great deal of interest and support from the Foundation's stakeholders. For many, it meant that the Foundation had a set way to build its endowment and carry out is mission-related goals. It also was a way for FES to directly support the development of CSOs in the country.

Internally, however, the PMFs also have a built-in tension. On the one hand, the Social Department would like the PMFs to grow. They believe that the 50 percent match is critical to the PMFs. Without it, they would not receive the types of donations that the PMFs have generated since their inception. On the other hand, the Financial Department would like the FES endowment to grow, and for the yield and match requirements to be lower, in order to reduce costs and risk. These tensions can be understood given the nature of the organization involved. FES is a grantmaking foundation with a very clear set of social goals. These goals bring social costs -- costs that the FES is willing to pay -- in order to continue to meet its goals.

The Social Department has been some what flexible in its stance on this situation. FES is not willing to have the PMFs undermined, nor is it willing to jeopardize its own reputation as a sound and reliable financial institution. Changes undertaken in the selection criteria have given FES some leeway. The 500 minimum salary requirement has had a major effect on the types of PMFs and organizations that can be supported. The PMFs are no longer intended to help smaller Colombian nonprofits generate on-going income for their operational expenses. Although the smaller PMFs created prior to 1997 are still in existence, the PMFs are now a way for FES and larger institutions to leverage funding for their work. FES has been criticized for this since it has meant leaving behind organizations (typically smaller) that have little if any opportunity to obtain this type of funding.

This was a very hard decision for FES to make. Had the Foundation not made this decision, however, FES staff feels that the PMFs would have been completely undermined financially. The smaller PMFs are too expensive and do not have the social impact that they are intended to have. In addition, many of the smaller organizations complained that they could not access their capital and that they were in fact helping FES to build its own endowment. They now have the option to invest savings directly in the marketplace.

Even before these changes, organizations with smaller PMFs have complained that they have given up their own endowment to help build that of FES. One person interviewed felt that her organization would have been better off had they directly invested the full amount themselves. Another felt that they appreciated the match, but that in fact their own business and finance experience would probably have yielded them a similar return.

7.6 Benefits Outweigh Costs:

The benefits (financial and non-financial) of the venture outweigh the costs (time, effort, money) in relation to other financing methods.

Until recently, the benefits of the PMFs outweighed their administrative and financial costs. The PMFs are a way for the Foundation to leverage money for its projects, for its endowment and for other organizations as well. They fulfill both social and financial goals. For FES, this made them well worth their costs.

As currently structured, however, the PMFs pose a high risk. The match and monthly interest rate guaranteed by FES carry with them a tremendous financial responsibility. According to Mr. Silva in the CFC, this kind of return is very expensive and places a challenging burden on the CFC to generate returns especially during economic hard times. Perhaps a lower rate of return and a lower match guarantee would ease some of the pressure and make the PMFs more viable. As stated earlier, given recent economic downturns and decreasing investment yields, the Foundation has had to use its own endowment funds to meet the monthly contributions to the PMFs in the past few years.

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A key difficulty, however, is balancing the endowment-building with matching the investments and providing financial returns to investees. These dual objectives can sometimes be in competition with one another.

7.7 Increased Flexible Funding:

The venture helped generate a greater amount of "flexible" (i.e., untied, unrestricted, unearmarked) income for the organization.

The PMFs have brought flexible income to FES, income that it has mostly used to administer its own project funds. This income has generally increased over the years – until recently. The PMFs have also meant more flexible income for the participating organizations, income that they mostly use to cover operating and institutional costs as well. Since PMFs are based on a required rate of return, this revenue stream is quite stable, something many organizations would not receive if they invested the funds themselves.

7.8 Allows Longer-term Planning:

The venture allowed the organization to plan more autonomously and more long-term.

The PMFs have allowed FES to plan more autonomously and for the long run. The fact that the Foundation found a way to attract a steady source of income gave it the opportunity to be more confident in its future and, at the same time, the leeway to plan more strategically.

Lessons Learned

A mutually beneficial endowment building mechanism: The PMFs are based on a principle of mutual benefit: the Foundation can attract resources for its endowment while simultaneously providing a financial return to its CSO investees. This endowment-building mechanism is unique both for its different fundraising method as well as for the dual benefits it produces. A key difficulty, however, is balancing the endowment-building with matching the investments and providing financial returns to investees. These dual objectives can sometimes be in competition with one another.

The match is key to the Funds exponential growth and ultimate attraction as an investment: The exponential growth of the PMFs provides a stable source of income for both FES and its CSO investees. The most important component of this exponential growth is the 50 percent match provided by FES which automatically doubles the amount invested and therefore more than doubles its return. The rate of return is perhaps less important since it is comparable to rates offered by other financial institutions in the country albeit more on a fluctuating (as opposed to a guaranteed) basis.

A way to finance operational and institutional development costs: The PMFs were intentionally set up to help defray operational and institutional development costs, expenses which CSOs find most difficult to finance. There are very few existing funding mechanisms currently available anywhere which achieve this objective. With the PMFs, CSO investees know that each month they are guaranteed a minimum return from their funds for operational and institutional expenses. These yields also have the potential to increase as performance of the investments improve.

Not as workable for smaller funds: The case also illustrates that smaller PMFs do not perform as well for the Foundation or CSO investees. For FES, small funds are too expensive to maintain and their low returns do not make them very attractive as an endowment-building mechanism. Likewise for small CSO investees, the revenues gained are not as significant. Limited resources are perhaps better invested or used elsewhere.

The concept of pooling resources works: The PMFs confirm that when organizations or individuals pool and invest their resources, the return is higher and the benefits greater for all. For the most part, FES and CSO investees have both gained from pooling their resources. This collective approach allows both organizations to benefit far more than if they had attempted to invest independently.

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The need for strong financial backing: FES is a large financial institution. Its long-standing experience as a financial institution allowed it to manage the PMFs in a financially sound manner. It is not clear whether other organizations without such expertise or without the backing of a financial company could replicate the PMF approach. The combination of financial and investment experience with the stability and reputation provided by the financial company enabled FES to leverage the types of resources required to operationalize the PMF model.

The need to shield from market risks: The PMF model also reinforces the importance of shielding organizations with a social mission from the potential volatility and fluctuations of the market. Colombia's national banking system does not back up the PMFs and PFs nor does FES have any kind of insurance or financial guarantee from a larger donor. This is a risky undertaking for an organization that has to balance its social goals with its financial ones and that is responsible for the funds of close to 500 CSOs.

Epilogue

In May 1999, the Government of Colombia decided to nationalize the financial activities of FES. This decision was due to the fact that FES had been unable to raise $50 million in capital to guarantee its outstanding obligations as required by the Banking Authority. The severe economic crisis in the country in the past several years had hindered the Foundation's efforts to reach this goal. This was the same case with several other banks in the country that have also been nationalized.

In 1999, FES initiated negotiations with the Government regarding the possible separation of the Foundation's financial and social sides. The hope was that the Government would allow the Foundation to retain resources sufficient to meet its social commitments. However, in nationalizing FES' financial activity, the Government also required FES to surrender all of its assets and liabilities. This stripped the Foundation both of the resources needed to continue its social programs and of its endowment of USD 30 million.

The nationalization has had a direct impact also on the Permanent Funds outlined in this case study. FES' endowment consists of the 500+ Funds - both matching (PMFs) and non-matching (PFs) - that the Foundation maintains with CSOs throughout the country and abroad. Given the current situation, FES has been unable to meet the monthly payment obligations to the CSO investees.

The Government has formed a commission to consider the handling of the endowment. The Commission is headed by the President of Financiera FES, SA, the new finance company that has taken over FES financial activity. FES has asked the Commission to return the organization's USD 30 million endowment and another USD 7 million in grants and contracts that were also nationalized. It is FES' intention to use the USD 7 million for its social programs under a new organizational entity leaving the newly established company with all other assets. It is also the Foundation's intention to return the initial investments and accumulated capital to the CSOs that started PMFs and PFs. This process will occur over a several year period as FES plans to continue to build its endowment while also honoring these commitments

At the time this case was published, the Commission had not yet made its decision on the $US 30 million. There is a very clear concern among the CSOs with PMFs and PFs over the future of the Funds and whether or not they will indeed be returned. Immediately following the nationalization, the CSO community organized to advocate for the return of the Funds and to investigate the reasons for their nationalization. The Committee for the Recovery of the PMFs has been working in four areas: 1) Political- lobbying the Colombian Government responsible for nationalizing the funds; 2) Communication- keeping the CSO community and the media informed of the matter; 3) Legal- working with experts to compile and analyze documents pertaining to the Funds; and, 4) Technical- measuring the social impact of the nationalization on the OSCs and other affected population. As a result of these efforts, there is a perception among some in this community that part of the nationalization was caused by FES' own handling of its financial situation and not only by the economic crisis in the country.

The information shared in this case was provided by FES personnel and Board members prior to May 1999 and does not reflect events or findings that took place subsequent to the nationalization of the Funds. In NESsT's view, the model used by FES to build its endowment and to leverage revenues for its programs and those of Colombian CSOs, is unique, valid and worthy of publication. The model sustained itself for over twenty years and provided funding for hundreds of organizations and projects. Equally important, however, is the need to conduct a follow up investigation to further assess why the model was not sustainable and what factors could have prevented its eventual collapse.

For more information on NESsT, its publications and services please contact: Nicole Etchart,
Co-Director, NESsT,
Jose Arrieta 89, Providencia,
Santiago, Chile.
Tel: +(56 2) 222-5190.
Email: nesst@igc.apc.org
nesst@igc.apc.org
www.nesst.org

For more information on the Synergos Institute, please contact: Shari Turitz,
Regional Director, Latin America,
Synergos Institute, 9 East 69th Street,
New York, New York 10021, USA.
Tel: 1-212-517-4900.
Fax: 1-212-517-4815.
Email: sturitz@synergos.org.