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COPEME:

Adapting Self-financing Strategies to New Market Conditions

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Executive Summary

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

The Consortium of Private Organizations to Promote the Development of Small and Micro Enterprises (Consortio de Organizaciones Privadas de Promoción al Desarrollo de la Micro y Pequeña Empresa, or COPEME) is a Peruvian nonprofit civil association that was created and registered with the Public Registry in Lima in July 1990. It is a network of private organizations whose mission is to develop micro and small enterprises (MSEs, known as MYPEs in Peru) and its purpose is to "promote and carry out programs, projects, and activities aimed at developing the micro and small enterprise sector on a municipal, regional, and national level through its members" (COPEME 2007).

Due to its enterprise focus, COPEME has been developing self-financing activities¹ from its beginnings. At the request of the European Union, the organization initially operated a program known in Peru as FONDEMI (Fondo de Desarrollo Microfinanciero, or microfinance development fund) for financing MSEs. Later, in 1998, it incorporated a Microfinance Institution (MFI) empowerment program aimed at offering technical assistance and training services, as part of a larger project funded by the United States Agency for International Development (USAID). In addition, the organization has supported the creation of a savings and loan cooperative known as FORTALECER, in order to provide loans to its members. Finally, in the constant search for new products, COPEME has implemented a certification program for micro and small enterprises known as CERTIPYME.

The organization channels resources from programs and activities and from the development of new products aimed at meeting the needs of clients, whether or not they are Consortium members. One of the greatest challenges facing COPEME today is its capacity to generate resources to cover operational costs and break its dependency on international cooperation agencies. This challenge has become more pressing as its primary grant program has recently ended.

Section A: The Context

In Peru, MSEs represent a significant economic force. According to the National Plan for Promotion and Formalization of Micro and Small Enterprises (Plan Nacional de Promoción y Formalización de la Micro y Pequeña Empresa) for 2005-2009, in 2004 there were 2,518,617 MSEs in the country, of which 75% belonged to the informal sector. According to data from Peru's Ministry of Labor and Employment Promotion, in 2006 MSEs employed 80% of the economically active population and generated 40% of Peru's gross domestic product.

The history of MSEs dates back to the first large-scale wave of migration to Lima from the countryside in the 1950s. The subject took on greater importance in the mid-1980s, when the enormous economic potential of these informal enterprises was finally recognized (Carbonetto 1983, De Soto, 1986). At the time, professionals from civil society, international cooperation agencies, and the



Peruvian state "expressed an interest in changing the work dynamics in Peru's emerging sector" (Dammert 2007)² by supporting and empowering the informal economy. In 1990, a group of professionals from the non-governmental sector founded COPEME to promote recognition of the role of the informal sector.

The organization was founded at a time of particular importance for civil society organizations³ (CSOs) in Peru. For Dammert (2007)⁴, the 1990s were marked by a shift in the way that CSOs were funded and consequently in their operations and programs. Although CSOs perceived that international cooperation agencies were leaving Peru and Latin America, funding to Peru did not decrease during this period. Rather, there was a shift in the relationship between cooperation agencies and CSOs wherein agencies were no longer interested in funding overall organizational and operational expenses, but rather concrete projects with definite results. The context in which COPEME was founded and its guiding spirit explain why this organization has opted for self-financing and charging partial fees for all of its services from the outset.

Section B: Organization Background

B.1. Mission and Programs

Given the increasing importance of globalization in the early 1990s, a group of representatives from CSOs became concerned about the development and organization of micro and small enterprises from a competitive standpoint and created COPEME to address these issues. The mission of COPEME is to "constitute a representative organism, a coordinator of programs implemented by private organisms to support micro and small enterprises, with the capacity to influence public policy in this sector" (COPEME 2007).

From the outset, COPEME has used an operational methodology based on the development of a network or consortium of organizations. Partners receive capacity-building and other services that are partially subsidized by yearly membership dues, a model that had been implemented successfully in Brazil. COPEME operates as an umbrella organization/network that groups together about 60 nonprofit organizations from major cities throughout Peru to promote MSE development.

The organization takes on this mission from a capacity-building approach. Among its main activities are business development, technical assistance and training services for microfinance institutions. In its 17 years of operations, COPEME has accumulated a broad range of experience in this field and is recognized by its beneficiaries, clients, and international cooperation agencies as a leader in MSE promotion.

In the mid-1990s, COPEME started the FONDEMI microfinance development fund program to facilitate resources for CSOs in the development of MSE lending programs. This program was created at the request of the European

- 2 Juan Luis Dammert is a sociologist and professor at the Pontifical Catholic University of Peru (PUCP). He presented a document entitled "Self-financing Activities of Civil Society Organizations in Peru" ("Actividades de autofinanciamiento de las organizaciones del sector civil en el Peru") at the Latin American Social Enterprise Symposium hosted by NESST in June 2006 in Santiago, Chile. The study was updated and published by NESST in 2007.
- 3 NESST uses the term "civil society organization" (CSO) to refer to a wide range of formally registered nonprofit, non-state organizations or community-based associations and groups that fall outside the sphere of the government and business sectors.
- 4 Updated information on the real number of CSOs in Peru is not available. According to Luis Castillo, attorney for the National Association for Social Promotion and Development (Asociación Nacional de Centros de Promoción Social y Desarrollo), there are approximately 19,000 nonprofit civil associations (asociaciones civiles sin fines de lucro, or ACSFL), of which approximately 2,000 receive funding from international cooperation and are therefore considered CSOs (Dammert 2007).



- 5 This methodology was developed by GTZ (German Technical Cooperation).
- 6 International Labour Organization (ILO) methodologies.

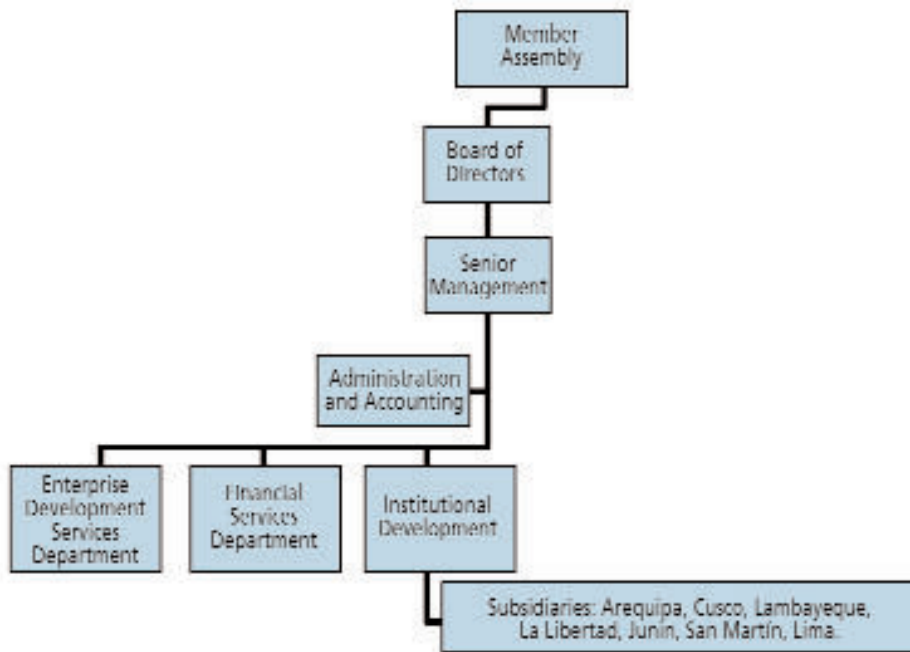
Union under the auspices of Peru's Ministry of Industry, Tourism, and International Business Integration and Negotiations (Ministerio de Industria, Turismo, Integración y Negociaciones Comerciales Internacionales, or MITINCI). This initial experience came up against a series of obstacles to its implementation and long-term sustainability, notably the scant experience in lending among many CSOs. These organizations saw FONDEMI as an opportunity to diversify their MSE services; however, their heavy dependence on international development assistance and minimal experience in loan repayment resulted in serious repayment delays. Likewise, many of these CSOs – particularly the smaller ones – sensed that management of these projects was not profitable. These circumstances, coupled with a growing need to make the program sustainable, led MITINCI and COPEME to put an end to their relationship. The knowledge gained from this experience included an understanding of the need to strengthen the financial capabilities of both COPEME and its partners.

Subsequently, many CSOs affiliated with COPEME adjusted their loan programs, albeit without funding or specific commissions until 1998. That year, USAID asked COPEME to take over management of a financial program that was then under the auspices of the Peruvian Export Association (Asociación de Exportadores, or ADEX): the Microenterprise and Small Producer Support (MSP) project. This gave rise to the Microfinance Initiative Program, which includes the following components: 1) technical assistance; 2) training, events, and internships; 3) IQT (information quality training); and 4) extension services (such as the Microfinance Report and Infocorp).

Another important COPEME program is the Enterprise Development Services (Servicios de Desarrollo Empresarial, or SDE) program. This program was originally aimed at sharing new capacity-building methodologies in enterprise management with members and non-members, and included the following training services: "Competition-based Economies through Formation of Entrepreneurs" (CEFE)⁵, "Start Your Business" (SYB), "Improve Your Business", "Enterprise Management Elements," "Improve Your Work Environment and Business," "Business Game"⁶, and others, in order to strengthen and improve services it offered to members. Likewise, COPEME developed a certification system specifically for MSEs. The organization has recently implemented the project "Business Linking System for Improving Productivity of Micro and Small Enterprises in Peru" under a business linking initiatives fund known as FIAC (Fondo de Iniciativas de Articulación Comercial), for resolving market bottlenecks.

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

The following diagram illustrates the organizational structure of COPEME:



COPEME currently works with a full-time staff of 19 people and four additional professionals assigned and paid for by international cooperation efforts.

COPEME clients are primarily CSOs, including both members and non-members, who promote the development of micro and small enterprises. They also include municipal savings and loan associations, rural savings and loan associations, financial entities for development of small and micro enterprises, savings and loan cooperatives, cooperation agencies, and government programs.

COPEME strives to have an impact on public policy in favor of MSEs and the microfinance sector. The organization is constantly developing legislative proposals and initiatives as well as promoting new and improved regulations applicable to MSEs and microfinance entities.

B.2. Financial Information

COPEME's budget for 2006 was more than 7,700,000 soles (about US\$2.47 million), just over 50% of which was funded by international cooperation organisms. The chart on the following page provides a breakdown of COPEME's revenue:



COPEME Sources of Income (2004 - 2006)			
	2006	2005	2004
	%	%	%
Sources			
International/foreign sources	55.93	61.14	68.83
Membership fees	1.12	1.24	1.69
Fees for service (business and government)	39.01	27.70	25.00
Investment Dividends	3.94	9.92	4.47
Total	100.00	100.00	100.00

The organization does not consider itself to be facing serious financial difficulty, as it has the resources to finance its main programs and projects. Some of its activities are partially self-financed (between 30% and 60%), although the organization's goal is to achieve 100% self-financing. However, COPEME's primary source of funding thus far – a USAID grant for project services – ended in 2006. As a result of this, the organization is seeking new ways to finance the projects and services it has planned. In terms of expenditures, about 80% of revenue is set aside for programs and activities, and about 13% is used to cover administrative expenses.

COPEME Distribution of Expenditures (2004 - 2006)			
	2006	2005	2004
	%	%	%
Programs/activities	79.07	82.26	76.83
Administrative/office expenses	12.89	15.21	16.41
Other	8.05	2.53	6.77
Total	100.00	100.00	100.00

Section C: Self-financing

As previously mentioned, in keeping with its mission to provide support to MSEs in their enterprise development, COPEME charges fees for the services it provides, although this doesn't cover 100% of its expenses.

C.1. Self-financing Activities

COPEME currently employs four forms of self-financing:

1. *Consulting services, including technical assistance and training.* In the microfinance area, revenue from consulting varies from US\$15,000 to US\$30,000 per year. COPEME's major clients include credit-lending NGOs, municipal savings and loan associations, and entities for development of small and micro enterprises



(Entidades para el Desarrollo de Pequeña y Micro Empresas, or EDPYMES). Training and technical assistance are only partially self-financed, as can be seen in the following chart. With microfinance training, aimed at clients such as savings and loan associations with a greater payment capacity, COPEME tends to cover its costs, whereas technical assistance and training in enterprise development directed towards CSOs with a limited capacity to pay tend to be subsidized.

Percentage of Self-financing of COPEME Services	
Microfinance trainings	100%
Technical assistance	15-50%
Business management trainings	60%

2. *FORTALECER savings and loan cooperative.* COPEME and its member organizations are partners of this cooperative, which is regulated by the Peruvian Federation of Cooperatives. The Federation grants loans to partner CSOs so that these may in turn lend to end-users, such as rural farmers. The FORTALECER cooperative operates with two loan programs with a value of US\$1.5 million each. One is supported by the Inter-American Development Bank (IDB) and the other by the Ford Foundation. The interest rates on these loans are very low (2% and 3% annually) with 12-month grace periods and an overall repayment period of 10 years. The cooperative does not grant loans directly, but it does facilitate loans, sending reports to cooperation organizations to support loan applicants. COPEME charges a 0.5% fee for this service for IDB loans. A percentage of these loans (approximately 20%) are set aside for financing technical assistance (training and services).

3. *Membership dues.* Membership dues are US\$600 a year. In 2006, this brought in an estimated US\$28,000, with almost 20% in late payments.

4. *Other activities such as MSE certification (CERTIPYME).* As part of the Enterprise Development Services program, COPEME created a quality certification system for micro and small enterprises in conjunction with two well-known enterprises (Quality Consulting S.A. and CERPER S.A.). The Consortium charges a fee for each enterprise it certifies.

C.2. Start-up and Evolution of Self-financing

Since its founding in 1990, COPEME has included a self-financing component in all of its activities. This comes from its decision to be a financially self-sustainable institution. COPEME's leadership is convinced that in order to generate competencies nothing should be free, which is why the organization strives for its members to be self-sustaining and has chosen self-financing as the basis of its own work. Beneficiaries pay for almost every service they receive, although often on a sliding scale. The organization has strategic short- and long-term plans and a business plan for its self-financing activities, as it strongly believes in practicing what it preaches.



Section D: Management of Self-financing

The COPEME staff members who work on international cooperation-financed projects are also responsible for consulting services, as all of the CSO's activities are partially self-financed. For the most part, the consulting services are carried out directly by COPEME staff. Consultancies in technical assistance are carried out by external consultants, since the projects are often very specialized and require know-how and skills that COPEME staff members don't have.

Each area or program determines the fee to be charged for the services provided. Initially, a general price is set at full cost and then subsidy levels are determined on a case-by-case basis. These subsidies are greater in the Enterprise Development Area. COPEME members are entitled to a higher discount (15-20%) than non-members. The subsidy is also higher in regions (outside Lima), although clients almost always pay some kind of fee.

The FORTALECER savings and loan cooperative is a separate legal entity. Although COPEME is one of its partners, FORTALECER staff members are completely independent from the CSO. COPEME, however, is the most active organization in the cooperative. Aside from being a partner, it also conducts the initial evaluations of organizations applying for loans.

The allocation of resources is determined internally by the Member Assembly and the Board of Directors by means of democratic processes and defined transparency policies. The CSO's revenue has always been used to develop the social mission through reinvestment in activities that enable it to increase the percentage of self-financing.



COPEME partners receive training and services that are partially subsidized by yearly membership dues.

they work with to COPEME workshops and seminars. These organizations often refer the services of COPEME to others.

In terms of competition from other organizations, few provide services and products similar to COPEME's. However, the Peruvian government frequently offers services and consultancies to MSEs at no cost, which are impossible to compete with.

COPEME markets its services and products through publications that describe the know-how and experience of the organization, as well as through the COPEME web site, the network of members, and international cooperation agencies, which invite the organizations



Section E: Legal Aspects

COPEME was founded and registered with the Public Registry of Lima as a nonprofit association. As such, it is exempt from income-tax payments for revenue it receives or generates from the services it offers, as long as these are reinvested in the organization in areas related exclusively to its social mission. COPEME adheres to this legislation, setting aside all revenue derived from consultancies and training for mission-related activities. It also participates as a partner in the FORTALECER cooperative, along with other CSOs dedicated to MSE development who also form part of COPEME.

Although the organization's leadership believes that the legislation applicable to CSOs significantly limits or restricts the development of its activities, it does consider that this legislation could be improved, specifically in terms of the loan system and tax and municipal regulation issues for MSEs.

Section F: Self-financing Challenges

The primary challenge faced by COPEME was restructuring its activities and finding fresh sources of financing after difficulties it encountered in implementing the FONDEMI program. This afforded COPEME and many of its members a wide range of experience and knowledge in microcredit management.

The opportunity provided by USAID to get the organization off the ground and increase recognition of COPEME's work in the field through awarding it the Microfinance Initiative has also been another important challenge. With this initiative and in response to the problems that emerged in the FONDEMI project, COPEME began to prioritize the development of financial management capabilities within the organization and among its members. This opportunity fit within the framework of the implementation of the state-operated EDPYME system and the strengthening of municipal associations through international cooperation. The opening of this window of opportunity for the organization went hand-in-hand with the challenge of offering clients and beneficiaries new products, which subsequently added to its institutional consolidation. This was a turning point for COPEME that strengthened its reputation among cooperation agencies as well as beneficiaries and clients.

However, despite these changes, most of COPEME's training and technical assistance programs continue to be at least partially funded by international cooperation agencies. With the termination of the USAID-funded program, COPEME's financial situation has become more unstable. To help cover its overhead costs, the organization is focusing on developing products for new clients, including private sector businesses, while keeping its social mission in mind at all times. The organization's leadership believes the CSO market has "a very low ceiling" and will always require subsidies to offset costs.



Section G: Effects of Self-financing

G.1. Performance of Self-financing Activities

COPEME has provided a total of 43 technical consultancies since 1998 to individual organizations and programs. Client institutions have included municipal associations, rural associations, cooperatives, and urban and rural CSOs. During this time, the total amount generated by this activity was US\$1.63 million. The organization has provided trainings to a total of 151 institutions in different regions, with enrollment of 3,365 people, equal to 68,688 person-hours of training.

The FORTALECER savings and loan cooperative was created in 1998 with eight member NGOs, each making a US\$3,000 contribution. Today there are 34 members. Resources for loan operations come from contributions and deposits from member institutions, letters of guarantee, and contributions in the last few years from the Ford Foundation and the IDB. These funds are primarily set aside for granting rural loans through partners. The cooperative already covers its operational costs and its potential for growth seems positive.

G.2. Impact on the Mission

The mission of COPEME is fulfilled both through its internationally funded programs and its self-financing. The organization considers that it has successfully passed on the self-sustainability message in every consultancy and training, which is vital to its institutional mission. By charging fees for its programs and services, COPEME fosters a “culture of payment” among its beneficiaries and clients.

The savings and loan cooperative contributes to the development of financial and management capacities among the staff of the organization and its partners. These capacities can then be used in programs funded by international development assistance or by self-generated funds. The cooperative is monitored regularly by international financing organisms through the assessment and approval of reports prepared by COPEME.

G.3. Impact on Sustainability

Consultancy services have contributed to positioning the organization beyond its beneficiaries. Through provision of these services, COPEME has been able to progressively consolidate its position in the market. COPEME has recently been entrusted with the management of an IDB microfinance loan fund aimed at low-income clients in rural areas. The FORTALECER savings and loan cooperative will oversee the fund’s operations.

In terms of the organization's experience as a loan administrator, and based on its experience with FONDEMI, COPEME now places greater emphasis on strengthening both its own and its members' microfinance portfolios. This venture has been underway and solidly maintained for eight years and has contributed significantly to COPEME’s success.



Self-financing activities have diversified COPEME's sources of income. However, the organization does not anticipate eliminating the need for revenue from international cooperation. On the contrary, these aid agencies are seen by the organization as potential clients of its products and services.

Section H: Conclusions and Lessons Learned

Self-financing has contributed to COPEME's sustainability but has not significantly reduced its dependency on external funding. However, the organization has overcome certain challenges, such as the difficulties it encountered with FONDEMI, and has since been able to restructure and solidify itself. It has a clear approach today in terms of mission development, one that allows it to adapt its own capacities to the needs of its beneficiaries and clients and thus strengthen the MSE and microfinance sector.

COPEME's experience with FONDEMI enabled the organization to identify the importance of strengthening both its own and its partners' financial management capabilities. Training in microfinance turned out to be a product in great demand by both nonprofit and for-profit financial organizations and solidly positioned COPEME within the MSE sector.

The organization has always charged a fee for its services but on a sliding-scale basis, depending on the client's capacity to pay. Given that its costs are only partially recovered, COPEME is constantly searching for new sources of revenue, including products and services. In addition, the organization has learned that the market changes often and it must be able to adapt by offering new products and services. In doing so, COPEME has developed innovative solutions for its beneficiaries and clients.

Although COPEME's self-financing experience is largely positive, there is a risk: the search for new products aimed at the for-profit sector could cause mission drift. To prevent this, it is important to keep the social mission in sight at all times to avoid favoring the interests of clients over beneficiaries, and to establish mitigation strategies to confront this risk.

In terms of financial planning, COPEME has never separated its revenues by funding source. Disaggregating this information could directly benefit COPEME, by helping the organization itemize its resources and assess which activities are most lucrative. This would also allow the organization to make an informed decision in terms of which services it should continue to subsidize.



COPEME passes on the self-sustainability message in its consulting and trainings.



An important problem that the organization faces is its continued financial dependence on international cooperation. The end of the USAID project has forced COPEME to reduce the technical assistance it offers, as it cannot continue to subsidize this service. The search for international cooperation funds and emphasis on the areas these agencies generally favor is a threat to the continuity of COPEME programs at the level they are currently offered. It is vital for COPEME to develop a sustainability plan that adequately defines its fundraising and self-financing strategies. This should include a three-year budget for each program, specifically identifying the sources of income for each. In addition, the organization should create a business plan for its new products and/or clients, clearly identifying potential markets and developing three- to five-year financial projections.