



**Nonprofit
Enterprise and
Self-sustainability
Team (NESsT)**

**NESsT
Case Study
Series**

07

**México
May
2002**

English

Mexfam Offering High Quality Services at Subsidized Prices

MEXFAM is a Mexican institution offering family planning, health care, and sex education to the poor and the young. In 1992, with the support of a USAID grant, MEXFAM established health care centers that offer high-quality services at subsidized prices for low-income sectors, and also provide services for doctors and private patients. The organization was encouraged to generate its own revenues through these health centers. It used the initial USAID support to establish the centers with the advice and assistance of a family planning organization in Texas based on a Colombian model. This extensive and efficient network of health care centers offering different specialized services and a significant volunteer corps have allowed MEXFAM to generate revenues for new programs in sex education and health promotion.



Fundación Mexicana
para la Planeación Familiar

Location

Tlalpan, Mexico

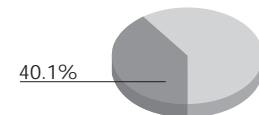
Fields

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

Annual Operating Budget (1998)

MXP 54,509,974¹
(USD 5,737,892)

Percent of Self-financing



Self-financing methods used

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

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1 MXP is the International Organization for Standardization (ISO) symbol for the Mexican peso.

1. Background

The Fundación Mexicana para la Planeación Familiar (Mexican Foundation for Family Planning), or MEXFAM, was founded in 1965 to offer innovative quality services in family planning, health care, and sex education to the most vulnerable populations of Mexico: the poor and the young.

This organization is based in Mexico City, with branch offices in 28 Mexican states. It works in three key areas: 1) sexual health for youth, a program that provides medical care, information, and education on sexual health to young people in marginal urban and rural areas; 2) sexual and reproductive health care clinics for people in marginal urban and rural areas; and 3) community health, a program that offers community health care through community providers who are trained, equipped, and supervised by MEXFAM.

Legally structured as a tax-exempt nonprofit association, MEXFAM has a staff of 499 (265 part-time and 234 full-time) and works with a volunteer corps of approximately 3,000 members.

2. Financial Information

In 2000, 50.34% of MEXFAM's income came from donations: 44% from international donor funds, 5% from individual donations, and 1.34% from in-kind donations. The remaining 49.66% came from the organization's self-financing activities. The percentages were similar to those of the previous year, when 48.5% of income came from donations and 51.5% came from self-financing.





Table 1 *Sources of Income 1997-2000*

(Percentage of Total)

	2000	1999	1998	1997
International sources				
Foreign/international grants	44.0	42.5	48.0	61.8
Public sources				
Individual donations	5.0	4.0	2.8	1.4
Self-financing				
Fees for services	40.0	40.5	32.4	24.5
Product sales	8.66	8.0	6.3	6.5
Dividends from investments	1.0	3.0	1.4	2.8
Other sources				
In-kind donations	1.34	2.0	9.1	3.0
TOTAL	100%	100%	100%	100%

Until 1992, MEXFAM depended almost entirely on outside funding and charged only nominal fees for its medical services and educational materials.

3. Self-Financing Activities

Until 1992, MEXFAM depended almost entirely on outside funding and charged only nominal fees for its medical services and educational materials. In 1992, the US Agency for International Development (USAID), established a special transition project; its purpose was to encourage self-financing as a way to sustain MEXFAM's work in the long run. This program organized clinics as small enterprises that would need to cover their operational costs and generate profit to finance community activities. Later, the organization also began to sell contraceptives at its clinics. At present, the possibility of starting a wide social marketing operation for contraceptives is being explored.



Table 2 *Types of Self-Financing*

<i>Type of self-financing</i>	<i>Description</i>
1. Product sales	In 1988, MEXFAM began to generate income through the sale of educational materials distributed among organizations and professionals in the field. In 1996, MEXFAM began selling contraceptives – mostly pills and condoms – for a fee.
2. Fees for Services	In 1992, MEXFAM began charging fees for medical services offered in existing as well as newly established health care clinics. At the time, the organization received most of its funding from the US Agency for International Development (USAID) and the International Planned Parenthood Federation (IPPF). These donors encouraged MEXFAM to recover costs by charging for its medical services. It gradually began to do so, and it now charges for all services offered in its 24 clinics, including gynecology, pediatrics, general medicine, medicine for adolescents, ultrasound, X-rays, deliveries, and surgery. Users of these services are mostly low-income women and young people. Fees are modest and cover the operational costs of clinics and of some of the community services associated with the clinics.
3. Dividends from investments	MEXFAM invests its available funds, some of which come from advance payments of project grants, conservatively. Dividends are reinvested in the same projects.

After exploring various financial sustainability strategies proposed by USAID consultants, MEXFAM adopted the suggestions provided by the Dallas-based International Planned Parenthood Federation (IPPF). IPPF effectively supported setting up an entrepreneurial structure in charge of running and managing the clinics.

4. Start-up

Mexfam initiated its self-financing activities upon the suggestion of USAID, which up to 1998 provided a significant amount of funding for MEXFAM programs. USAID submitted a transition project focused on establishing sustainable clinics that would generate a surplus to finance community programs. During implementation of the transition project (1992–1998), annual contributions amounting to USD 9,121,734 were used to finance many of the ongoing community programs and establish new clinics. After exploring various financial sustainability strategies proposed by USAID consultants, MEXFAM adopted the suggestions provided by the Dallas-based International Planned Parenthood Federation (IPPF). IPPF effectively supported setting up an entrepreneurial structure in charge of running and managing the clinics. The idea of establishing sustainable clinics, based on the PROFAMILIA case in Colombia, came from the Regional Office of IPPF.

By the end of the transition project financed by USAID, 12 clinics had been established (four of which were financed with donations from other organizations).



MEXFAM has continued setting up clinics funded with donations from other foundations and private enterprises. Currently there are 24 clinics in operation.

Currently, the organization has plans to conduct a preliminary market demand and location study, hiring suitable staff, and implementing a marketing plan to ensure clientele.

5. Management

Funds generated by self-financing activities are used to cover MEXFAM's general expenses. To start self-financing activities, service and management staff were hired, together with a small number of administrative staff for the main office. The working team at the main office remained the same. Services offered at the clinics cover the clinics' operational costs and generate a surplus with which other activities and programs in the area are subsidized. Additionally, these other activities and programs receive funding from local and international donations.

A considerable number of new staff were hired to establish clinics and sell products, while hiring of staff for the main office did not increase significantly. To change the line of business, various advisory services were required, including marketing, accounting, and feasibility studies. In 1992, MEXFAM had 121 full-time employees; it now has 265 full-time staff and 234 part-time staff. These numbers do not include the staff of affiliated clinics, not run by MEXFAM, which amount to an additional 25%.

Of the total MEXFAM staff of 499, 370 (74%) are involved in services and management in the clinics – MEXFAM's main self-financing activity. Of these 370 staff, 205 are medical doctors, most of whom work on a part-time basis.

MEXFAM has a large volunteer corps of approximately 3,000 people. This number underwent a boost with the expansion of the Young People Program, which started in 1998 and currently covers 28 Mexican states. The volunteers work mostly as disseminators and extensionists for the Youth Sexual Health Programs and in furthering community health.

MEXFAM is a member-based organization. The 80-member Assembly of Associates elects a management council of 14 members – 10 women and 4 men – each year. Every 4 years, the core of the management council is elected, i.e., the executive committee formed by the chairman, vice-chairmen, treasurer, and secretary. This committee is composed of 6 members – 5 women and 1 man.

MEXFAM's administration has remained stable over time. The former chairperson served for eight years and the executive director has been in office for 17 years. The directors devote up to 50% of their time to managing self-financing activities. Rather than contract new personnel upon initiating self-financing, the organization decided to train the team in business skills, and to ensure their commitment to the mission and overall success of MEXFAM.

Funds generated by self-financing activities are used to cover MEXFAM's general expenses.



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Clinics were set up as revenue generating enterprises from the start, with appropriate feasibility studies to make sure they would be financially viable.

6. Policies and Legal Framework

MEXFAM is governed by tax laws applicable to nonprofit organizations, which makes it eligible for tax-exempt status according to fiscal laws. All income generated by the operation must be ploughed back. No economic benefits or dividends may be routed to private individuals. At the same time, MEXFAM must pay the value-added tax (VAT) when purchasing services and must charge VAT when selling services through commercial channels.

7. Effects of Self-Financing on the Organization

7.1 Mission and Values

According to MEXFAM's executive director, Alfonso López Juárez, introducing self-financing activities affected MEXFAM in various ways, but its mission and values remained untouched. MEXFAM's work is in the social service field and its work ethics have remained focused on this field; it is only the financing means that have changed, broadening the scope of the foundation's work and contributing toward accomplishing its mission. As long as income generated through self-financing activities is untied and can be used freely, the mission remains unchanged and its activities may be sustained. Programs subsidized by MEXFAM, however – mainly youth, sexual health, and community health dissemination programs – have continued to receive significant support from foundations and international organizations, allowing them to reach many other areas of Mexico.

In addition, after USAID withdrew its funding, MEXFAM not only did not suffer any budget cuts, the budget was substantially increased. The budget for 1997 amounted to USD 6,356,000, while the budget for 2000 amounted to USD 8,630,000 – a 28% increase.

MEXFAM feared that it would slowly lose its lower income clientele when it began to charge fees. However, because fees charged are reasonable and adapted to the geographic location of the services, there was no change.

7.2 Organizational Culture

Setting up clinics meant huge growth for MEXFAM. The number of full-time staff rose from 121 in 1992 to 265 in 2000. The number of part-time staff – on payroll and on commission – rose from 18 to 234 in the same time span. MEXFAM became more complex and grew in staff, infrastructure, and funding base. The number of clinics grew from 2 in 1992 to 12 in 1998 to the current 24. Similarly, the Young People Program, present in 22 cities in 1992, is now operational in 52. In addition, business management models were applied to the internal organization to ensure that services provided were efficient and that self-financing goals were achieved. Clinics were set up as revenue generating enterprises from the start, with appropriate feasibility studies to make sure they would be financially viable.



By charging fees, the organization focused more directly on meeting client demands and achieving client satisfaction. As a result, MEXFAM became more competitive. Decisions related to self-financing were made collectively as the organization confronted the financial challenges produced by USAID's impending withdrawal of funding.

Self-financing has allowed MEXFAM to become a stronger organization and to face the future with peace of mind and a sense of self-sufficiency. Because funds now come from the foundation's own activities and are no longer subject to the uncertainties and fluctuations of external support, the work team is free to concentrate on better planning and on managing the organization efficiently in order to make it profitable.

As a result of increasing activity in the clinics, there is now a degree of separation felt between staff working in the clinics and staff working in community programs. MEXFAM is working to further interaction and interdependence between the two staff categories.

7.3 Autonomy

Perhaps it is here where the impact of self-financing is felt most strongly, as it has made MEXFAM a sustainable organization. On the one hand, the organization has ensured a steady stream of revenues so long as services are in demand. MEXFAM is no longer dependent on finding resources, at least as regards a significant part of its work. On the other hand, income goes directly to the organization and is managed according to MEXFAM's criteria and policies. Unlike donor funds that are often tied to specific objectives and projects, the organization generates untied revenues that it can use as it sees fit.

Indirectly, the growth in self-financing has allowed MEXFAM to strengthen its autonomy by being better positioned and having a substantial pool of resources, a stronger presence nationwide, and an extensive infrastructure.

7.4 Relations with Stakeholders and the Public

The main effect of self-financing on the relationship between MEXFAM and the general public has been the significant increase in the number of users once the clinics were operational. The number of fee-paying clients has increased.

The number of medical services provided by MEXFAM in 1992 amounted to 266,307, rising to 368,097 in 1996 and surpassing 1 million in 2000.

According to Alfonso López Juárez, MEXFAM's executive director, the relationship with foundations also improved, as stronger, financially stable organizations are more trusted. Its increased resources, brought about by self-financing and by other donor-funded projects, have led to increased subsidized services for recipients who are not able to pay for them.

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What is special about MEXFAM clinics, as compared to private health care, is that they are located in places where low-income people really need them and that they offer services that can compete in quality and cost with those of private establishments while adapting to the financial constraints of the people living in the area.



Services offered have improved, and therefore users have access to better quality care. For instance, MEXFAM's clinics generally have a colposcope, a piece of medical equipment not usually available in clinics of this kind. Some of the MEXFAM clinics have a mastograph, another technologically advanced piece of equipment. The MEXFAM clinic located in San Luis de la Paz – financed by the Japanese International Cooperation Agency – is possibly the best-equipped rural clinic of its kind. Similarly, the clinic located in Villa, Mexico City, is among the popular clinics that offer a wider variety of services.

As a result of these new activities, MEXFAM's degree of commitment has improved in all areas. Users feel they are better served; members and volunteers feel that their organization is better, and consequently, board members participate more actively, as the decision-making scope is broader. Staff are more committed because they are aware that tangible results from paying clients are required.

Other civil society organizations recognize MEXFAM's leadership, probably owing to the size of its activities, its local standing as a state-of-the-art organization, and its international reputation. The UN granted MEXFAM the Population Award 2000 for its outstanding pioneering work in furthering family planning and youth sexual health.

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

8.1 Description

MEXFAM has 34 centers managing activities and projects and 4 affiliate centers. At present, most of them have a clinic, ensuring, in some future cases, a basic self-financing level. Clinics offer specialized medical services including family planning, gynecology, pediatrics, X-rays, ultrasound, colposcopy, laboratory services, and, in some cases, mastography. What is special about MEXFAM clinics, as compared to private health care, is that they are located in places where low-income people really need them and that they offer services that can compete in quality



and cost with those of private establishments while adapting to the financial constraints of the people living in the area. Self-financing is achieved mainly by charging a fee for services; all services, medical and lab, are paid for. If a person is unable to pay the fee, a line of credit is set up and the patient pays for the service when he or she is able to do so. The quality of services and equipment available at MEXFAM clinics is so high that patients and work are referred from other medical doctors in private practice.

Other sources of self-financing are the sale of products, namely, contraceptive pills and condoms, and investment dividends. In 1998, self-financing amounted to 41% of MEXFAM's budget; the remaining 59% came from donations (international, private, and in-kind).

Income obtained from self-financing initiatives finances the cost of medical services as a whole and partly subsidizes other MEXFAM programs. The amount obtained has increased over the past few years, and this trend is expected to continue in the future. Dependence on international support decreased from 62% to 42% between 1997 and 1999. In 2000, it increased to 44% owing to an exceptional increase in foreign support. Furthermore, the income from clinics went from MXP 1,845,454 in 1995 to MXP 33,821,760 in 2000. Such spectacular growth is in small part due to inflation rates, since the peso-US dollar exchange rate has remained stable over the past few years. Inflation rates have been approximately 10% per year.

According to the executive director, MEXFAM's self-financing strategy is less costly in terms of time, resources, and work than other alternatives. Donations would be the sole exception to the latter, but it is impossible to obtain an amount high enough to cover all of MEXFAM's activities. Similarly, the strategy based on product sales, fees for services, and investment dividends makes MEXFAM more autonomous in managing institutional funding to finance its activities – 90% of the income generated by the clinics is used to cover their own operations. MEXFAM hopes to increase the amount of surplus revenues available for other objectives in the future. In some exceptional cases, this surplus amounts to 30%.

8.2 Financial Performance

MEXFAM is a low-cost social services organization with an annual budget of USD 8 million. It is operated as an enterprise covering its own costs and generating resources – though not enough, according to the executive director – to subsidize other institutional programs.

The self-financing strategy stemmed from a USAID decision to cut MEXFAM funding in 1992. With this decision came a USD 9 million donation that was used to set up health care centers or clinics that would offer medical services for a fee. To this end, MEXFAM contributed technical assistance in marketing, feasibility studies, and accounting advisory services. In the beginning, despite the abundance of technical assistance, operations proved ineffective. Only two years later, with the help of a specialized organization – Planned Parenthood of Dallas, Texas – did managing the clinics become an efficient operation.

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The original donation played a major role as it allowed MEXFAM to start self-financing activities without incurring any kind of debt.

The possibility of setting up an endowment has been discussed repeatedly. However, this would be an extremely difficult operation, as equity would have to amount to hundreds of millions of dollars in order to yield substantial interest payments. In addition, the international policies of IPPF do not favor setting up endowment funds.

The original donation played a major role as it allowed MEXFAM to start self-financing activities without incurring any kind of debt. The initial challenge was figuring out how to manage the clinics and how to cover their operational costs. This goal was accomplished within approximately three years.

In establishing the first nine clinics, approximately USD 5 million was spent, mostly on equipment and operational costs, as the budget only provided for revamping existing facilities. Over time, MEXFAM has purchased the buildings with special donations or with its own resources, and at present it owns most of the facilities where the clinics operate.

MEXFAM is especially careful not to run into deficit or cash-flow problems, and there has not been any such situation in the past 20 years.

8.3 Sustainability

All in all, MEXFAM's financial sustainability seems to have been achieved, mainly because of the nature of its more profitable self-financing activities – fees for lab and medical services. Demand for such activities has been on the rise over the past few years and it is expected that it will continue to grow in the future. It is steady income that mainly depends on good management: reducing administrative costs, proper investment and equipment policies, service quality, etc. Bearing in mind that Mexican public health care services – with the exception of social security– are low quality and private health care services are good quality but very expensive, it is highly likely that MEXFAM's services would be in great demand by vast sectors of the population.

Investment dividends have remained at insignificant levels and are, by their very nature, sensitive to financial and stock market fluctuations. Donations have increased as a direct result of MEXFAM's sustainability and international prestige, since donors prefer financially stable organizations. It is expected that international support will remain at current levels.

The ownership of hard assets – 24 equipped clinics – is an important factor when it comes to sustainability. These are high-quality medical centers, equipped with modern, functional equipment purchased with MEXFAM funds. Only in exceptional cases has equipment been bought on credit, and in these cases the debt was repaid by fees for the services provided by the same equipment.

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8.4 Financial Diversification

MEXFAM's funding strategies consist mainly of charging fees for services and obtaining donations. Both together amount to 90% of the budget. From this



standpoint, MEXFAM's strategy is not very diversified. However, services offered are varied and cover a wide range of demands. From this standpoint, the strategy ensures flexibility and a more client-driven orientation, based on the demands from the general public, other medical doctors, companies, etc.

The self-financing strategies were introduced gradually. The organization began with membership fees and investment dividends. As of 1998, the sale of products, especially educational materials, was introduced. Fees for lab and medical services were first implemented in 1992. (Although nominal fees had been charged in the past so that people would value the services provided, this practice was not aimed at self-financing.) Charging of fees for educational activities began in 1993 and the sale of condoms and contraceptive pills began in 1998.

Conclusions and Lessons Learned

MEXFAM is a case of self-financing mainly based on charging fees for services. The organization has found a market opportunity that is compatible with its institutional mission. It offers high-quality health care services at low cost, thus serving its institutional purposes and obtaining income that makes it sustainable.

Starting self-financing did not imply incurring debt, as costs were covered by a donation. At the same time, the specialized advisory services of an experienced organization helped define the required management models. MEXFAM is managed as an enterprise, allowing the organization to achieve financial stability and overall sustainability.

The effects of self-financing are felt mostly in the growth and sustainability of the organization, and in that self-financing allows for more autonomous – less grant-dependent – management. Self-financing obtained from sales of services to low-income persons and private health care clients has allowed MEXFAM to expand and strengthen its health promotion and education programs and hence its overall mission.

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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