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Self-sustainability
Team (NESsT)**

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SER: Self-Financing Activities Respond to the Needs of the Community

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SER

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- 1 NESST uses the term "self-financing" to refer to diverse strategies used by civil society organizations to generate their own revenues (sale of products, service fees, use of hard or soft assets, and dividends or investment income). 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 the mission impact of the CSO.
- 2 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.
- 3 Up-to-date information about the number of CSOs in Peru does not exist. According to Luis Castillo, an attorney with the National Association of Centers for Social and Development Promotion, there are close to 19,000 civil non-profit associations (ACSFL) in the country, of which close to 2,000 say they receive international support funds and, therefore, are considered NGOs (Dammert 2007).

Executive Summary

The Association of Rural Educational Services (SER) was founded in 1980 by a group of professionals seeking to support the rights and development of rural people. Until the 1990s, SER operated exclusively with funds from international cooperation, whether from foreign governments or multilateral agencies.

In 1996, several of the organization's most important programs were terminated due to a new focus in the allocation of funds from international cooperation agencies. As a result, SER decided to implement self-financing activities¹ in the form of consulting services for a fee. These services continue to be developed today in areas related to SER's programs.

SER faces two important challenges. The first is the development of mechanisms that enable it to efficiently manage its self-financing activities, maximizing the benefits and minimizing costs. The second is the development of a more fluid relationship with the private financial sector to enable SER to improve its cash flow problems and its participation in tenders for funds from the state, an important client of the organization.

Section A: Context

The 1990s were of central importance in the life of SER. On the one hand, this period provided opportunities to develop programs and services for both international cooperation agencies as well as for civil society organizations (CSOs)² in two areas that SER had begun to specialize in: water and sanitation and democracy building. The need for water sanitation became a priority in the international agenda and came to be viewed as a key issue in environmental sustainability. Similarly, the subject of democracy building became paramount for CSOs and international cooperation agencies in response to the government of Albert Fujimori.

This decade was also significant for CSOs in Peru overall. For Dammert (2006)³, this 10-year period was 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.

In this context, many Peruvian CSOs began to reform their programs, with the goal of "increasing efficiency, streamlining their organizational and management structures, selling their services and generating greater levels of self-sustainability (...)" (Certum Association, 2005, cited in Dammert, 2006).



Section B: Organization Background

B.1. Mission and Programs

SER was founded by a group of priests associated with the Episcopal Commission for Social Action (Comisión Episcopal de Acción Social, or CEAS) and professionals seeking to support the efforts of rural populations organizing to defend their rights and promote development. The organization was registered as a nonprofit association in the Public Registry in 1980.

The mission of SER is to contribute to building citizenship and a democratic state, strengthening institutions, and improving living conditions. The organizational vision is to promote autonomy and freedom for all people and to build a society based on equity and tolerance. Its two main areas of work are: 1) decentralization and democratic governance, and 2) water and sanitation. One of its principal work strategies involves establishing alliances between citizens, local governments and other organizations on local, regional and national levels, as well as forming networks with other civil society organizations.

In 1992 and 1993, SER underwent an institutional crisis due to a reduction in its financing, which resulted in the termination of some of its programs. This situation resulted in the loss of several members of the team, which also implied a serious cost to the organization. This in turn led to an overhaul of the organization's vision and the priority issues guiding its work.

By the beginning of the current decade, the organization was experiencing a wave of growth motivated by: (1) specialization and focus on two issues - democracy, and water and sanitation - which took on importance in both the national agenda and international cooperation; and (2) the interest of the SER team to take advantage of this opportunity to meet needs related to these topics in rural areas. This change also came about at a time when a consulting market emerged in these two areas.

SER has always sought to work in alliance with citizens and public and private institutions at the local, regional, and national levels. Between 1997 and 2004, SER expanded its geographic reach, opening three offices in different parts of the country to incorporate projects specific to the reality of each area. The Ayacucho office was created principally to work with local governments, and its work expanded quickly to include those communities affected by the internal armed struggle with the Shining Path (Sendero Luminoso)⁴. The Cajamarca office was created in 2001 to work with social organizations, and its activities later included the facilitation of dialogue between rural community leaders, business people, and regional politicians on the subject of mining⁵. The Puno office was opened after the development of a serious social conflict in the region in April 2004⁶. All of these offices are staffed by teams of professionals with degrees from local universities. These regional offices open doors to new issues and work opportunities.

- 4 According to the Truth and Reconciliation Commission "(...) the internal armed conflict being investigated is the most serious in our republican history and has left profound after-effects in all areas of national life. The magnitude and intensity of the conflict accentuated serious national inequalities, destroyed democratic order, increased poverty and deepened inequality, aggravating forms of discrimination and exclusion, weakening social networks, and favoring a culture of fear and distrust (...)" (TRC 2003: 342).
- 5 In recent years, this issue has generated intense debate, particularly in relation to the sustainability of this productive activity and the mining law. The latter can be defined as "the effective and adequate participation of local governments (provincial, district and municipalities) and regional governments in income and profits obtained by the state from the commercial exploitation of mining resources (metal and non-metal). Thus, once the tax on the profits is collected, the state, through the National Decentralization Council (Consejo Nacional de Decentralización), transfers a percentage of the income to the areas where mining resources are exploited" (SNMPE 2007). Together with



other institutions, SER supports a participatory budgetary process in the region, emphasizing that benefits for the local population as a result of the mining law should be maximized.

- 6 In a case study on local governments and the political conflict in Puno, Dammert indicates that "In addition to the already mentioned absence of mediation, the frequency of social conflicts in Puno is in part due to the fact that the growing importance of local governments has not been accompanied by the strengthening of other state agencies which are key to the prevention and channeling of conflicts" (2007: 5).
- 7 The Allpa Group "seeks to be a space for continuous exchange of opinions and experiences, reflection and formulation of legislative proposals concerning the development of rural communities and equal access to property rights" (Grupo Allpa 2007).
- 8 The international support organizations that finance SER projects include Catholic Relief Services, Diakonia, Swedish Ecumenical Action, Entraide et Fraternite (Belgium), Americas Fund, Medicus Mundi-Alava, the Basque Government, Misereor (Germany), Oxfam Great Britain, the Open Society Institute, and the Peruvian Counterpart Fund (Germany).

SER's Board of Directors is made up of four people. The highest authority within the organization is the Member Assembly, which approves annual balance sheets, work plans, and the budget. Since 2006, SER's full-time personnel consists of 70 employees, in addition to another 30 who work part-time and four members of the Board of Directors, bringing the total number of people involved in the organization to 104.

SER is a member of networks such as the National Coordinator of Human Rights, the National Association of Centers (which works on poverty relief issues) and the Allpa Group⁷, comprised of the Peruvian Center of Social Studies and the Episcopal Commission for Social Action, among other organizations. These networks enable the organization to strengthen its presence at the national level.

B.2. Financial Information

During the first 15 years of its existence, international cooperation was the sole source of income for SER⁸. The first funds it received came from development assistance agencies associated with the Catholic Church in Europe and were designated for projects focused on community participation and legal, health and technical-production issues. In 1995, SER began to develop self-financing activities, specifically consulting services for municipal administration, as part of a local government development program financed by the United States Agency for International Development (USAID) and carried out by ESAN University (Escuela de Administración de Negocios). Later, the range of SER's consulting services was expanded to include issues of environmental sanitation in response to the demand from international cooperation agencies.

Between 1996 and 2004, SER obtained between 5% and 7% of its financial resources from self-financing activities. After 2004, this percentage increased to 20%, as shown in the following table:

	2006		2005		2004	
	Soles	%	Soles	%	Soles	%
International/foreign sources	1,072,214	72.96	813,504	80.00	1,015,940	93.66
Fees for services (public and private sector contracts)	397,365	27.04	206,316	20.00	68,827	6.34
Total	1,469,579	100.00	1,019,820	100.00	1,084,767	100.00

The funds obtained as a result of self-financing activities are used, in part, to cover administrative expenses that are not financed by international cooperation. These expenses represent close to 10% of the organization's budget. Another portion of the income is set aside for activities not included in program budgets, such as publications, small fairs, and personnel training.



The organization believes it has sufficient funds to sustain its principal activities and faces no serious financial problems. In fact, SER's economic situation has been improving steadily over the last few years.

SER Income Allocation (2004 - 2006)						
	2006		2005		2004	
	Soles	%	Soles	%	Soles	%
Programs/activities	1,247,500	90.93	919,460	88.70	1,010,300	88.84
Administrative/office expenses	124,423	9.07	117,169	11.30	126,903	11.16
Total	1,371,923	100.00	1,036,629	100.00	1,137,203	100.00

Until a few years ago, SER maintained a low profile, but it is currently developing an extensive marketing and awareness effort through its web page. The organization believes it is important to position itself more forcefully in the public debate on the issues in which it specializes. The web site is now attracting visitors because SER has expanded its database and constantly updates information about its activities (the distribution list for web site updates contains 5,000 email addresses).

Furthermore, SER tries to publish informed opinions concerning its areas of focus, demonstrating its high level of specialization and professionalism to readers.

SER has also participated in competitions recognizing business innovation as a means of gaining support for its programs and activities. It recently received a public service award for the implementation of an ecological bathroom project (compost toilets) in the Pachacútec-Ventanilla neighborhood of Lima. SER worked in alliance with ROTOPLAST and the Americas Fund, who were responsible for financing this project.



Section C: Self-financing Activities

By 1996, the organization had identified an opportunity in the market for its consulting services. Some support programs run by institutions with the capacity to administer large funds began to contract smaller organizations for specific services, including services in the areas of sanitation and democratic governance, in which SER had already begun to specialize. This situation was viewed as an opportunity that would enable SER to obtain access to untied resources, which could help strengthen its institutional mission, cover operating and administrative costs not financed by cooperation agencies, and increase the salaries of its employees, thereby developing the organization.

The process of offering consulting services in the above areas, particularly in water and sanitation, required internal discussions between two generations of

SER recently won a public service award for the implementation of a project to install composting toilets.



team members. Some members, especially the longstanding ones, were not supportive of shifting the organization's thematic concentration, as it would imply discontinuing work with some issues and stakeholders that the organization had been working with since its beginning. To address this concern, it was critical that the organization establish initial financial goals; if these were not met in the first year, consulting services would be dropped.

SER set its initial revenue goal at 5% of the total annual budget. In 2001, as a result of the national political transition, the state no longer viewed NGOs as illegitimate actors and in fact began to contract these organizations for various types of services. Following this change, SER began to position itself as a service provider for the government, participating in bids and public tenders. Consequently, consulting services began to grow, exceeding SER's original expectations and therefore validating its initial decision to start these services. The initiation of fees for services emerged from SER's central office, but the organization's regional offices also followed suit, albeit on a much smaller scale.

Section D: Management of Self-financing

SER's consultancies are staffed by permanent, long-term employees of the organization, and also by independent, specialized personnel. The organization seeks to adapt to the particular needs of each project, both in terms of geographic location and thematic specialization. Likewise, SER regional offices may be contracted by other NGOs in Lima that do not have local subsidiaries.



Larger consulting projects are often directed by outside consultants, while smaller projects are handled by SER's permanent staff members.

The consultancies may be conducted in several ways, such as in response to competitions or requests for proposals. They also may result from actions taken by the organization or its employees. For SER's executive director, Javier Torres Seoane, these represent opportunities for the organization as well as for its employees. On the one hand, these consultancies generate income in addition to funds received for programs, and on the other, they boost the prestige of

the organization and its team.

SER personnel is not divided between those who work on self-financing activities and those focused on the organization's programs in support of its mission. As consultancies are considered part of the organization's social projects, all members of the organization are assigned to work in this area. Assignments are made solely on the basis of the specific needs of the project and the areas of expertise required.

The director assigns professionals to specific consulting projects in conjunction with the coordinator of the related program and the regional office coordinator. The first choice is a professional from SER's staff, and if no one from the



organization is available for the consultancy, an external consultant is brought in. Consultants are usually contracted for larger consulting projects, while staff tends to work on smaller projects.

The Board of Directors oversees and works directly in the various activities, whether they are consultancies or projects. The Board dedicates close to 25% of its working time to the development of self-financing activities and decides how the organization's self-financing income will be used. Until now, it has all been channeled into further development of the social mission.

One of the challenges for internal management involves defining clear procedures, formalizing criteria and setting policies for consulting services. This process may clash somewhat with an organizational culture that has difficulty "putting things on paper", in the words of the current SER director. The team leans more towards consensus building, especially when faced with the possibility of having to follow inflexible decision-making processes.

Due to the increase in the scale of programs and consulting services, SER is currently assessing – although not without some misgivings – the need for a more formal division between its purely social programs and its enterprise area. The organization endeavors to professionalize its services not only in terms of self-financing activities, but also in terms of project management, time allocation, and accounting and financial management. The idea of forming an independent enterprise arises in Board meetings within the context of the organization's need to avoid drifting from its social mission. Javier Torres also emphasizes that the organization and its employees have little experience in business matters overall.

To allay these concerns about mission drift, SER has developed a protocol for analyzing consulting services requested by potential clients from the extractive mining sector, in order to ensure that the project is in line with the mission. According to this policy, a consulting job is accepted only if 1) the local population agrees with the service required; 2) there is a formal request for the service; 3) the service is not in blatant opposition to the organization's mission; and 4) the regional office in the relevant area supports taking on the project. This protocol has undoubtedly resulted in the loss of some clients for self-financing activities. To date, only one consulting project has met all of the protocol criteria. However, SER would prefer to turn down these opportunities than to compromise its mission.



SER carries out self-financing activities in water sanitation, a priority on the international agenda.

Section E: Legal Aspects

From a legal perspective, SER was founded and registered with the Public Registry of Lima as a nonprofit association. As such, it is exempt from paying taxes on



income it receives for consulting services, as long as that income is used within the organization itself and exclusively for mission-related activities. In order to ensure that income from consultancies remains tax-exempt, SER is careful to designate it only for those activities it develops as part of its mission.

In general, CSOs must pay the value-added tax (VAT) on income from the sale of goods and services, except those that are registered with Peruvian Association of International Cooperation (APCI). Registration with APCI enables SER to solicit a VAT refund when the international aid agency funding a specific project requests that SER do so. When this occurs, the VAT recovered is reinvested in the organization.

Section F: Challenges of Self-financing

SER has faced two fundamental challenges in relation to self-financing activities. The first was initiating and implementing these without any further planning or a business development culture within the organization. When SER began its self-financing activities, none of the founders or members had experience in structuring and operating a business or selling the services they offered. For example, they were unsure about how to manage costs or how much to charge for their services.

As consulting services grew, SER members realized that to continue to successfully meet the demand for its services, the organization had to analyze its operations and organize its personnel by establishing work plans and defining job functions. This included defining goals, setting priorities, and developing mechanisms to publicize their services and attend to staff and infrastructure needs. The outcome of this was the development of a five-year work plan that encompassed their self-financing activities.

Another important challenge has been SER's relationship with the traditional financial sector. When payments for consulting services are delayed as is often the case, the organization is forced to take out loans to maintain its cash flow and meet its financial obligations.

Since NGOs are not considered creditworthy by the traditional financial system, SER has been forced to negotiate loans with non-commercial financial entities at higher interest rates. These entities are scarce and do not offer a wide range of products to meet specific needs – such as granting guarantees or credit lines.

Also, because these organizations are not part of the traditional financial sector, they are not included in the list of financial organizations recognized by state agencies. SER's leadership became conscious of this problem when the organization participated in a public tender process related to sanitation. The organization was unable to supply the required credit history and letter of



Client demand for services allows SER to identify the unmet needs of the population and consequently expand its work.



guarantee, because it did not have access to loans from the officially recognized financial system. As a result, SER must carefully assess the advantages and disadvantages of taking on each state contract .

Section G: Effects of Self-financing

G.1. Performance of Self-financing Activities

In 2004, income from consultancy services represented about 20% of SER's overall income, a percentage that has risen each year since then. The net income obtained in 2006 from consultancies to the public and private sector increased to 397,365 soles, or about 27% of total income. This income has enabled SER to cover its administrative costs and allocate funds to areas and activities that international support agencies generally do not finance.

In financial terms, the consulting services provided by the regional offices do not represent a significant percentage of SER's income, and those offices are not self-sustaining. This is because the establishment of these offices has not been accompanied by administrative decentralization of the organization. Also, a tacit agreement exists whereby the income obtained from consultancies carried out in each of these regional offices is reinvested back into the offices to finance their activities.

G.2. Effects on the Mission

SER's business activities are closely linked to the development of its mission, as such activities provide services in the same areas as its programs. The organization believes that self-financing activities have strengthened its mission in several ways. First, demand for its consulting services permits SER to identify needs of the population that have not been met and thereby expand its areas of work, while maintaining its focus on the beneficiaries it serves within the framework of its social mission. Second, self-financing activities have given SER a certain degree of flexibility in terms of how it spends its income, enabling the organization to carry out mission-related activities that are not funded by international cooperation, such as publishing books and dissertations, organizing cultural activities, training personnel, and providing assistance to young researchers.



SER's regional offices were established to facilitate work on projects related to the reality of the surrounding geographic area.

G.3. Effects on Sustainability

SER's consulting services and other activities that are not funded by international cooperation have enabled it to consolidate its presence in the marketplace and among CSOs. According to the executive director, SER has positioned itself as a "brand" and the organization is recognized for the quality of its services in the



private market as well as in the nonprofit sector. The leadership also believes that aid agencies have looked favorably upon SER's self-financing activities, as they contribute to the organization's sustainability. Furthermore, the heightened public visibility that the consultancies have given to the organization helps to reinforce cooperation agencies' confidence in SER.

Although not all of SER's offices are self-sustaining, the development of self-financing activities has provided the opportunity to improve aspects of SER's administrative management and its human and financial resources. It has also enabled SER to develop strategic plans, work plans, and establish both medium and long-term goals.

Section H: Conclusions and Lessons Learned

SER is an organization with a clear and solid mission. This has enabled it to overcome hard times and successfully adapt itself to new realities and current trends, with strategies that combine a social perspective with a business focus. The organization's leadership clearly believes that the provision of consulting services must strengthen SER's mission rather than question it. Consequently, the organization has taken care to avoid neglecting its beneficiaries in favor of clients as its self-financing activities grow. This can be seen in the requirements developed by the organization to determine whether it will take on projects with mining companies.



SER seeks to form alliances with community groups, local governments and other entities, and is an active member of CSO networks.

One of SER's most important challenges is redefining its management model in order to improve its strategies for self-financing and obtaining funds from international cooperation agencies. When developing this model for expansion of its consulting services, SER needs to have the input and agreement of its members to avoid tensions, such as those that arose with the initiation of self-financing activities.

The establishment of several regional offices represents a challenge for the organization, as these offices may develop greater autonomy with their own self-financing activities. SER will need to develop clear lines of overall revenue sharing and decision making in order to avoid divisions within the organization in the future.

The organization's leadership believes that it is necessary to develop mechanisms - including legal counsel - that would enable it to successfully bid on publicly funded projects. Finally, a pending task for SER is increasing the organizational capacity to attract consulting projects that meet the organization's protocol. Maintaining an open dialog with prospective clients will be important in meeting this goal.