

Nonprofit
Enterprise and
Self-sustainability
Team (NESsT)



Sustainability through Earned Income Strategies
**A Diversified Approach to Self-Financing:
A Case Study of Hogar de Cristo**

2000

This case was prepared for The Synergos Institute by the Nonprofit Enterprise and Self-sustainability Team (NESsT) with the support of AVINA.

Introduction

Foundations around the world are taking increasing advantage of earned income opportunities to raise money for their programs and endowments. However, directors and staff most often do not have the specific experience required to evaluate and assess business opportunities. Even where they do have this experience, they still have few models for non-profit business in their own countries.

To build the capacity of foundation leaders in creating earned income programs in their own institutions, Synergos has developed case studies on earned income programs that grantmaking foundations have implemented successfully.

Organizational Information

Mission and Programs

Hogar de Cristo was founded in Santiago, Chile in 1944 by a Jesuit priest, Father Alberto Hurtado (Padre Hurtado), with the mission of serving the poorest of the poor. The organization, the largest operating and grantmaking foundation in Chile, provides assistance to the marginal poor, particularly the elderly, the homeless, terminally ill patients, abandoned children and youth. The organization has projects in six key areas:

- Children and Youth
- Community Centers
- The Elderly
- Hospices
- Health
- Social Risks.

Hogar de Cristo runs shelters, hospices and homes for children and the elderly, provides funeral services to the poor who cannot afford them, gives scholarships to children and youth, provides credit to unemployed people to start businesses and provides housing support.

Hogar de Cristo was founded on the premise that all Chileans are responsible for confronting the problem of poverty and that poverty can be eradicated if all Chileans become involved. An important part of the Hogar de Cristo mission is to comfort the poor by developing advocacy and assistance programs and awareness-raising of poverty issues in Chile.

Two-thirds of the projects are financed and managed directly by the Foundation. The remaining third is financed by the Foundation through annual grants to community-based organizations, parishes, other NGOs or smaller foundations. These are usually small sums of money to assist with certain project components. To evaluate and/or choose grantees, the Foundation visits the project and assesses whether the project fits within Hogar's own mission

and program related goals and whether it makes financial and programmatic sense to support it. Grants are made for one year and organizations must report on project outputs upon their completion. The Foundation is currently supporting approximately eighty organizations totaling about one-third of its program funds.

Structure and operations

Hogar de Cristo has become a household name in Chile. In 1998, it had a volunteer corps of 3,765 people and a staff of 2,116 – approximately 792 in Santiago alone. Of the 792 employees, approximately 122 work on fundraising and self-financing programs - 98 as full time employees while the remaining 24 work only part-time.

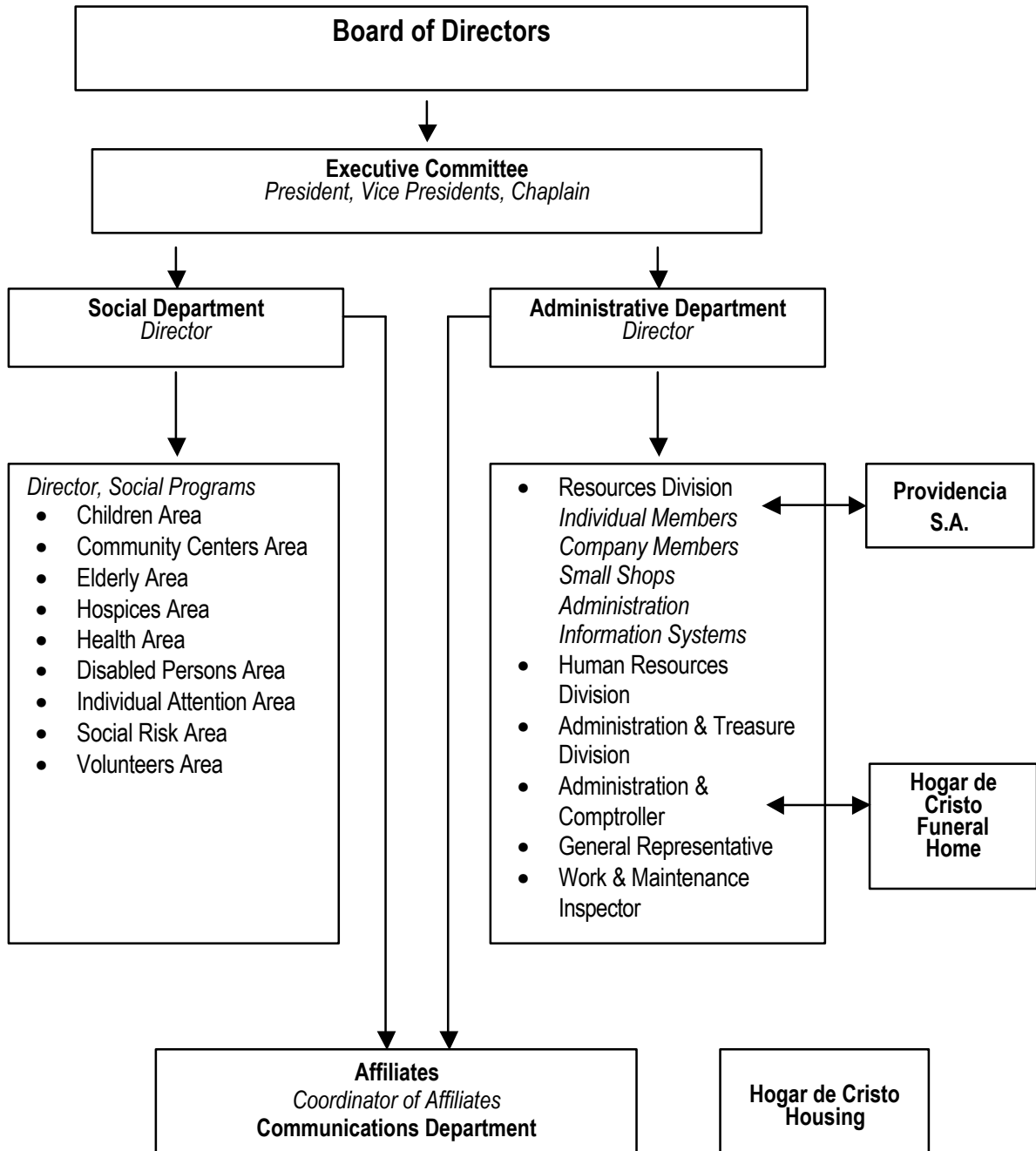
Apart from the 792 Santiago-based employees, 320 people are contracted on a permanent basis to carry out the organization's membership program and 30 are contracted on an annual basis to assist with the Christmas Card Program during the six-month period preceding the Christmas season. (See Section 3 for a full description of these programs).

Hogar's board of directors is comprised of nine members, headed together by Jesuit Father P. Renato Poblete and Jose Zabala, (a businessperson), the chaplain and president of the Foundation, respectively. Advisory councils also help manage the organization. Hogar is a faith-based foundation with a Catholic orientation. However, it is completely separate from the Catholic Church in Chile and receives no funding from the Church for its work.

In addition to its headquarters, Hogar de Cristo has 50 affiliates located in Chile's eleven regions as well as three in metropolitan Santiago. The affiliates vary in size and scope of work, but promote the same mission as the headquarters. Each affiliate has its own advisory board appointed by the national board and each coordinates and fundraises for its own projects. Affiliates receive administrative and financial support from Santiago.

Hogar de Cristo has two executive directors: one in charge of the Foundation's social program; the other in charge of all administrative issues. The social department coordinates the Foundation's projects in its six program areas. The administrative department oversees divisions responsible for the organization's human and financial resources as well as those providing support to the organization. Affiliates and the coordinator of affiliates report to both of these departments.

Figure 1: Hogar de Cristo Organizational Chart



Source: NESsT interviews with Hogar de Cristo

The Foundation owns 99% of Providencia S.A.¹, a company that coordinates the membership programs, particularly the collection of monthly dues, from members. The resources division of Hogar oversees the work of Providencia S.A.

The Foundation is also 98% owner of Hogar de Cristo Funeral Home, a private funeral home, created in 1954, which provides funeral services to many Chileans, particularly the poor. Hogar de Cristo Housing owns the remaining 2% of the funeral home, which has its own board of directors and its own staff. The Funeral Home was created to bring dignity to the funeral business and to provide revenues for the Foundation. It holds contracts with the Parque del Recuerdo cemetery, a funeral service company (Prever) and a crematory (Cinerario Hogar de Cristo-Parque del Recuerdo). The Foundation holds several contracts with the funeral home and with its partnering companies (explained further in Section 3: Self-Financing Information and Start-up).

Hogar de Cristo Housing (Hogar de Cristo Viviendas) is a separate nonprofit organization established by Hogar de Cristo to provide housing for poor, low and middle-income families. Originally Hogar de Cristo managed this activity but later decided that it would be more efficient and effective if managed by a separate nonprofit entity. Hogar de Cristo Housing has built over 440,000 units of low-income housing) and works with a staff of 125 people throughout the country.

Hogar de Cristo also has strong membership support. Membership has continued to rise since first offered in the early 1970s. In the last six years, it has almost doubled in Santiago and more than tripled in the rest of the country. The latest figures indicate that Hogar has close to half a million members, distributed almost evenly between the headquarters and affiliates. Memberships currently comprise slightly over three percent of the Chilean population of 15 million.

Figure 2: Hogar de Cristo Membership (1992-1998)

	1992	1993	1994	1995	1996	1997	1998
Santiago	118,466	140,437	182,502	220,000	233,574	234,422	236,175
Affiliates	88,775	102,400	131,421	165,000	212,292	235,840	242,065
Total	207,241	242,837	313,923	385,000	445,866	470,262	478,240

Source: 1998 Hogar de Cristo Annual Report and staff interviews

¹ In Chile, private limited companies must have at least two owners, which can either be individuals or companies. In the case of Providencia S.A. Hogar holds majority ownership and control. A private individual owns the remaining 1%.

Financial Information

In 1998, Hogar de Cristo's budget was US\$34,414,000 ² of which US\$20,222,000 was for the headquarters and US\$14,192,000 for affiliates.

Income

Of this total, 18% of the headquarters' income in 1998 came from donations, both from individuals and corporations (see Figure 3).

An important source of income from individuals came from Hogar de Cristo's "Small Change Program." This program allows customers at numerous Chilean grocery stores to donate the change from their purchases to the Foundation. Income from corporate donations is raised from guests attending the "Bread and Wine Supper," an annual event that attracts over 400 private businesspeople.

The majority of Hogar de Cristo's income, 82% in 1998, was raised from its a wide variety of self-financing strategies: 47% from an elaborate membership program; 15% from fee for services (including 10% from contracts with the Chilean government); 4% from sale of products; 6% from rental income from properties owned by the Foundation; and 10% from licensing agreements royalties.

Figure 3: Sources of Income Hogar de Cristo Headquarters, 1997 and 1998 (in millions of US Dollars, percentage of total in parenthesis)

DONATIONS	1997	1998
Individual donations	\$5,364,000	\$3,310,000
<i>Small Change Program</i>	338,000	584,000
<i>Other cash donations</i>	4,760,000	2,450,000
<i>20% donations from small shops</i>	148,000	160,000
<i>Wills and testaments and in-kind</i>	118,000	116,000
Corporate grants	312,000	396,000
<i>Bread and Wine Supper</i>		
Total Donations	\$5,676,000 (30%)	\$3,706,000 (18%)

² Exchange rate: US\$1 equaled approximately 500 Chilean pesos at the time of interviews.

SELF-FINANCING	1997	1998
1. Membership fees	\$8,202,000 (43%)	\$9,454,000 (47%)
<i>Home-based members</i>	5,436,000	5,790,000
<i>Credit card members</i>	1,554,000	2,188,000
<i>One Plus One members</i>	1,066,000	1,306,000
<i>Children members</i>	0	10,000
<i>20% memberships from small shops</i>	148,000	160,000
2. Fee for service	2,738,000 (14%)	3,032,000 (15%)
<i>Greetings Program</i>	364,000	380,000
<i>Government contracts (SENAME, FONASA)</i>	1,928,000	2,008,000
<i>Pension payments</i>	446,000	644,000
<i>Voluntary user fees</i>		
<i>Advertisements</i>		
3. Product distribution or sales	700,000 (4%)	738,000 (4%)
<i>Padre Hurtado items</i>	442,000	482,000
<i>Christmas cards</i>	258,000	256,000
4. Use of hard assets	1,256,000 (7%)	1,300,000 (6%)
<i>Rental of space and equipment</i>		
5. Use of soft assets	422,000 (2%)	1,990,000 (10%)
<i>Royalties for licensing name use and endorsement</i>		
<i>Total Self-financing</i>	13,320,000 (70%)	16,514,000 (82%)
TOTAL	18,996,000 (100%)	20,222,000 (100%)
* Figures are for net income and do not include costs for raising the funds estimated at 18%		
Source: NESsT interviews with Hogar de Cristo staff		

Expenses

In 1998, 13% of total expenses was spent on administration, 17% on fundraising and self-financing expenses, and the remaining 70% on programs (see Figure 4). These figures were very similar to 1997 and projected to be almost the same in 1999.

In 1998, approximately US\$5,976,000 (33% of total program expenses) was granted to organizations serving the community (churches, schools, community centers, hospices, homes for the elderly and terminally ill).

Figure 4: Expenses Hogar de Cristo Headquarters 1997 and 1998 (in millions of US Dollars, percentage of total in parenthesis)

Expenses**	1997	1998
Administrative expenses	\$3,244,000 (13%)	\$3,314,000 (13%)
Fundraising/self financing expenses	4,082,000 (17%)	4,378,000 (17%)
Program expenses	16,850,000 (70%)	17,874,000 (70%)
Total	24,156,000 (100%)	25,566,000 (100%)

Source: NESsT interviews with Hogar de Cristo staff

Self-financing Information and Start-up

Hogar de Cristo has a very diverse self-financing base. This is due primarily to the organization's strong belief that it should not depend on any one source for its funding and that it should continually seek to establish new sources of untied revenues. Many of the Hogar de Cristo self-financing strategies were initiated early on in the organization's history - some even created by founder Padre Hurtado himself.

As shown in Figure 3, the Foundation uses five types of self-financing strategies:

- Membership Dues
- Product Distribution or Sales
- Fee for service
- Use of hard assets
- Use of soft assets.

Figure 5: Hogar de Cristo Self-Financing Strategies

Strategy	Tool	Channel
Memberships Dues	a- Household memberships b- Credit card memberships c- One Plus One Campaign (corporate memberships) d- Children memberships	a- Door-to-door visits b- Telemarketing c- Marketing directly to companies d -Promotion at schools (some members also join at small shops)

Figure 5: Hogar de Cristo Self-Financing Strategies

Strategy	Tool	Channel
Product Distribution or Sales	a- Padre Hurtado items b- Christmas cards	a- Small shops b- Marketing directly to companies; selling to affiliates; selling at small shops; outsourcing to street vendors that sell directly to individuals;
Fees for services	a Greetings program b- Contracts with government c- Pension payments d- Voluntary user fees e- Advertising in members magazine	a- Small shops; telephone company b- Negotiating contracts with ministries c- Negotiating contracts with ministry d- Charging users at point of service e- Marketing to vendors to advertise in magazine
Use of Hard Assets	a- Rental of buildings to UNIMARC b- Rental of funeral cars to Hogar de Cristo Funeral Home c- Rental of building to Hogar de Cristo Funeral Home	a- Contracting with supermarket chain b- Contracting with the Funeral Home c- Contracting with the Funeral Home
Use of Soft Assets	a- Use of Hogar de Cristo endorsement by Parque del Recuerdo Cemetery b- Use of Hogar de Cristo name by the Funeral Home c- Use of Hogar de Cristo endorsement by several other companies.	a- Contracting with the Cemetery b- Contracting with the Funeral Home c- Contracting with companies.

Source: Compiled by NESsT

Membership Dues

Hogar de Cristo coordinates four membership programs:

- a) Household memberships
- b) Credit card memberships
- c) One Plus One Campaign (corporate memberships)
- d) Children memberships

In all cases, prospective members decide what level of fees they can contribute and commit to contributing on a monthly basis. The Foundation does not ask for a minimum level and does not charge the fees if a member cannot pay on a given month. For the most part, however, members pay these fees on a regular basis.

a) Household Members

Sixty percent of Hogar de Cristo's membership is obtained through an elaborate system of "door-to-door" ("puerta a puerta") visits. The visits are made by approximately 320 staff members who work on commission. The staff members are mostly female heads of household and sole supporters of their families who appreciate a flexible schedule that



Photo courtesy of Hogar de Cristo

accommodates their child care needs. Hogar de Cristo first began its membership program in the early 1970s as a volunteer program. Volunteers, again mostly women, were assigned to neighborhoods to gather membership dues and invite new families to join. However, with the increasing importance of membership income, it became clear to Hogar de Cristo that a paid program based on the commission incentive was necessary.

The door-to-door network is very elaborate. One supervisor oversees 60 group heads, each in turn overseeing 15 to 20 membership representatives. This is a very personal recruitment process that depends on the relationships developed by the representatives with their clients. For most Chileans, becoming a member of Hogar de Cristo is one important way to show solidarity with the poor.

Door-to-door, the most time- and personnel-intensive method, is slowly being replaced by faster and less expensive credit card methods, through direct mail or telephone solicitation. Many members, however, are attached to the personal interaction offered by the door-to-door method. Hogar recognizes the benefits of maintaining and building on this method despite the fact that it requires a large corps of staff to maintain it.

b. Credit Card Members

Credit Cards ("Automático") are direct mail inserts sent by companies with their bills, which invite clients to become members. Hogar de Cristo staff follow-up with telephone calls encouraging people to join. The entire process is financed by bank or credit card companies. Hogar de Cristo tries to encourage credit card memberships done through mail inserts, as it is the quickest and least costly way to receive membership dues payments.

c. One Plus One Campaign

The One Plus One Campaign (“Uno Más Uno”) is an indirect way to solicit members. The program is marketed to companies that agree to match 100% of the value of their employees’ membership. Through this approach, membership income is doubled. Donors are also invited to become members. As with credit card memberships, this is a less costly mechanism since the membership dues are withdrawn directly from the employee’s credit card.

d. Children Members

The Children’s Membership Program (“Socios Niños”) invites children to join Hogar de Cristo through the Chilean public school system. The schools are provided envelopes for each child, a box is placed in the school building and announcements are made on the bulletin boards reminding the children to pay their monthly fee. There are currently twenty schools participating in this membership program.

Product Distribution or Sales

Currently, Hogar de Cristo carries two product lines:

- a) Padre Hurtado commemorative items
- b) Christmas cards.

a) Padre Hurtado Commemorative Items

The first product line consists of items that honor the memory of Padre Hurtado, the organization’s founder. Numerous items (such as key chains, rosaries, books, images, cassettes, compact discs, stickers) are produced by the Padre Hurtado Foundation, sold by the Foundation to Hogar de Cristo and then offered by Hogar to customers who visit the small shops. Donations are received by Hogar de Cristo in exchange for these items. However, the foundation will not sell just any product. Each item sold must be related to the spirit and mission of the organization in order for the sale to be accepted as a tax-exempt donation.

b) Christmas Cards

The second product sold by the organization, for which it is best-known throughout the country, is Christmas cards. On average, the Foundation sells between five million and six million cards per year. The cards are produced in-house and are sold in four ways:

- *Companies:* Each year Hogar de Cristo designs a catalog of cards. A staff of twelve contractual employees markets the cards to companies throughout Santiago. Companies select the cards they wish to purchase. In some cases the companies provide these cards to employees as well. Hogar outsources the production of the cards to outside vendors. The cards are blank when received by Hogar de Cristo and the organization uses its in-house printing capacity to print the logo and greeting chosen by the company. In some cases, companies request their own special design or request blank cards.
- *Affiliates:* Hogar also produces cards for its 50 affiliates throughout the country. These are in turn sold by the affiliates to local companies and customers through their own

network of small shops. Fifty percent of the cards produced each year are sold to the affiliates.

- *Small Shops:* Padre Hurtado himself established the first small shop (“local”) 50 years ago. Today there are 25 small shops in Santiago located in shopping malls, Metro stops and strategic street corners in the downtown area of the city. Mall owners provide the space for the shops free of charge in exchange for the positive image created by having Hogar de Cristo at their establishment. Hogar must ensure that the shops blend in with local surroundings and is responsible for maintaining its day-to-day operations. According to Irene Sanfuentes, Director of the Resources Division, Hogar de Cristo small shops (“locales”) are “strategic places that bring visibility to the organization.” Their main purpose is to be a “window to the organization” at the community level. Customers may purchase Padre Hurtado items, they may make a contribution to Hogar de Cristo, they can join the Foundation, or they can arrange for some type of greeting to be made in honor of a friend or relative through the greetings service (described below).
- *Street sales:* Street sales (“venta calle”) are also quite popular. Rather than sell Christmas cards directly, Hogar contracts a network of salespeople who are paid based on the number of cards sold. The Foundation used to coordinate this program on its own. It encountered many problems, however, including theft, high levels of paperwork, and the need to supervise large numbers of contractual personnel. Hogar now sells high volumes of cards to street vendors who pay for them up front and are responsible for selling them on their own. Street sales takes place from November 15 until Christmas each year.

Christmas cards require a temporary labor force. The organization hires numerous people on a contractual basis to sell the cards, oversee production and quality control, and telephone receptionists to handle the large volume of telephone purchases. According to Ms. Sanfuentes, Director of the financial resources department, there is a great deal of competition since many other organizations now produce and sell their own Christmas cards. However, given the high volume of cards sold, the cost per card is very low, which keeps the business lucrative, especially for affiliates.

Fee for Services

Hogar de Cristo currently oversees five fee-for-services programs:

- a) Greetings program
- b) Contracts with the government
- c) Pension payments
- d) Voluntary user fees
- e) Advertisements.

a) Greetings Program

One of Hogar de Cristo's best-known programs is its Greetings ("Saludos") Program. The organization offers special greetings to family members and friends in recognition of different occasions. The family or friends receive a card with a special greeting that is also announced at a weekly Mass. Greetings are made in sympathy for a death as well as for weddings, illness, or birth of a child. The most popular among the greetings are "charity wreaths" ("coronas de caridad"), which are sympathy cards expressing spiritual support for the family and acknowledging the memory of a loved one who has passed away. The sympathy cards were initiated over 50 years ago and have become a common Chilean practice.



Photo courtesy of Hogar de Cristo

The sympathy cards have religious motifs (Christian, Jewish or Muslim) designed by Hogar de Cristo staff and printed by outside vendors. The families pay a minimum price for the greeting. Hogar de Cristo treats this as a donation.

The greetings are offered to the public at the small shops or directly by telephone. Customers call Hogar's main number or its 700 number to obtain the greetings. A collector or recipient of funds ("recaudadora") is sent to the client

to receive the payment or in some cases, the bill comes with the customer's telephone bill. Hogar de Cristo has an agreement with the Chilean Telephone Company (CTC), for those customers that indicate they would like to be billed through their telephone bill.

b) Contracts with Government

Hogar de Cristo holds several contracts with the national government that partially offset the costs of its social programs. The two main contracts are with the National Service for Minors (Servicio Nacional de Menores or SENAME) in the Ministry of Justice and with the National Health Fund (Fondo Nacional de Salud or FONASA) in the Ministry of Health.

One of Hogar's key program areas is with homeless, abandoned children. Hogar houses these children, providing them with shelter, food, clothing and education. The Foundation currently holds a contract with SENAME for a set amount of children (1,385 children). If Hogar assists more, it still only receives payment for the set amount. If it assists fewer, it receives funding for the lower number. According to Monica Esposito, Assistant Director of the Social Department, the amount of support provided by SENAME does not cover the full costs of housing and educating each child, but represent partial subsidies.

Another key program area is with the elderly. Hogar provides them with housing, food, clothing and medical assistance. In the case of those elderly that have been employed and have made contributions to the government for their retirement, Hogar receives support from FONASA

that covers 15% of the costs associated with this service. Hogar must finance the remaining 85%. In the case of the very poor who have neither been formally employed nor made contributions for retirement, Hogar covers the full costs of these services.

c) Pension Payments

Hogar de Cristo asks the elderly clients that use its residential services to contribute 70% of their pension to the Foundation. The clients keep the remaining 30% for their own personal use. This payment also helps the organization to offset the costs of caring for the elderly. According to Ms. Esposito, the costs of a terminally ill patient are 200,000 pesos (US\$400) per month. The 15% (30,000 pesos) provided by FONASA and the 70% pension payment (20,000 pesos) provided directly by the patients comes to approximately 50,000 pesos, or 25% of the costs.

d) Voluntary User Fees

Users of Hogar de Cristo's many services - shelters, hospices, elderly care - are asked to make a voluntary payment of 100 to 200 pesos (US\$0.25-0.50) for these services. This is in keeping with the Foundation's belief and experience that people generally don't feel good about accepting an outright donation and would prefer to pay something - even if a small, symbolic amount - for services received. In 1998, the organization collected 4 million pesos (US\$8,000).

e) Advertisements

Hogar de Cristo sells ads to private vendors that are placed in its members' magazine, *Revista Noticias*.

Use of Hard and Soft Assets

Hogar de Cristo receives ongoing rental and royalty income from contracts with private entities. Several of the long-term contracts are for property that is partially owned by the Foundation.

Hard assets include:

- Rental of three properties to UNIMARC supermarket
- Rental of property to Hogar de Cristo Funeral Home
- Rental of funeral cars to Hogar de Cristo Funeral Home.

Use of soft assets includes:

- Royalty payment for use of the Hogar de Cristo endorsement by the Parque del Recuerdo Cemetery
- Royalty payment for use of the Hogar de Cristo name by the Funeral Home
- Royalty payment for Hogar de Cristo's endorsement by several other companies.

UNIMARC Supermarkets

Hogar de Cristo is part owner of three UNIMARC supermarkets in Santiago. The first is 35% owned by the Foundation and 65% owned by the diocese of Talca and the Carmelite sisters. The building was constructed in the 1970s and was originally a food cooperative. During the military dictatorship, it was transformed into a UNIMARC. The second UNIMARC is 38% owned by the organization and 62% owned by the Archdiocese of Santiago. The third is 100% owned by the Foundation. In all three cases, Hogar de Cristo receives rent based on the sales by the supermarket.

Funeral Home

Hogar de Cristo also receives rental income from the Hogar de Cristo Funeral Home. This is a private, for-profit company that is 98% owned by the organization and 2% owned by Hogar de Cristo Housing Inc. It was established as a funeral home that would bring dignity to the funeral business and would be available to many of Hogar de Cristo's low-income clients. Because the mission of the funeral home is not directly related to the organization's mission, it was decided that it would be incorporated as a for-profit entity, the profits of which would be designated to the Foundation. In addition, the funeral home pays Hogar de Cristo rent for the buildings, rent for the use of the funeral cars, and royalties for the use of the Hogar de Cristo name.

Hogar de Cristo Funeraria also has a contract with PREVER, S.A., a company that sells the future use of funeral services with the Funeral Home. A percentage of its sales goes directly to the Foundation.

Other Contracts

In addition to these ongoing contracts, Hogar de Cristo has had several royalty contracts with other private entities. The largest of these is with the Parque del Recuerdo Cemetery, which pays royalties for the organization's endorsement. According to Julio Viveros, Director of the legal unit, who is General Representative in charge of all of Hogar's rental and royalty contracts, the royalty payment has decreased through the years as per agreed terms.

Overall, the Foundation does not plan to expand the number of these types of contracts since it does not want to commercialize the Hogar de Cristo name. Nor is it a policy of Hogar to associate with business ventures. Hogar wants to dispel the impression among some observers that its contracts are very lucrative; this is not the case, and could be counterproductive for the organization.

Self-Financing Management

Hogar de Cristo uses a variety of management structures to coordinate its self-financing strategies. The structures were developed in response to different strategic management needs and, in some cases, to Chilean legal requirements.

Figure 6: Hogar de Cristo Self-Financing Management Strategies	
Memberships Dues	
Home based members Credit card members One-Plus-One Campaign Small shop members Children members	Managed by Providencia S.A., a private company that is overseen by the Foundation's Resource Division, based found in the Administrative Department.
Product Distribution or Sales	
Padre Hurtado items Christmas cards	Managed by the Resource Division. Use outsourcing for printers and contract personnel for Christmas Card Program.
Fee for service	
Greetings Program Contracts with the Government Pension payments Voluntary user fees Advertising in the members magazine (<i>Noticias</i>)	The Resources Division also manages greetings program and sale of advertisements. The Social Department of the Foundation, which is in charge of providing these services, manages all other fee-for- service programs.
Use of Hard Assets	
Rental of buildings to UNIMARC Rental of funeral cars to Hogar de Cristo Funeral Home Rental of building to Hogar de Cristo Funeral Home	Managed by the General Representative Division of the Administrative Department. Handles all contracts for the Foundation.
Use of Soft Assets	
Use of Hogar de Cristo endorsement by the Parque del Recuerdo Cemetery Use of Hogar de Cristo name by the Funeral Home Use of Hogar de Cristo endorsement by several other public service companies.	Also managed by the General Representative Division.

Membership Programs

Membership Programs are organized by Providencia S.A., under the direction of Hogar's administrative department's resources division (see Figure 1). The Resources Division employs permanent staff overseeing the Membership Programs (approximately thirty) and Providencia, S.A. employs all of the contract personnel responsible for collecting membership dues (approximately 320).

After shifting from a volunteer to a paid labor approach for membership solicitation, Hogar de Cristo decided to manage its membership programs through an outside firm. The firm was responsible for attracting and processing memberships and charged Hogar de Cristo a fee for this work.



Photo courtesy of Hogar de Cristo

The importance of the Membership Programs to the mission and activities of the Foundation later led to a decision to bring management in-house, under the resources division. This action also cut costs. Management of a large staff that was paid commissions was not seen as ideal for the Foundation's mission-related goals. The Foundation formed a separate company, Providencia S.A., to employ and supervise all contractual personnel. In this way, the Foundation could preserve the

integrity of the mission while maintaining full control of the company's activities. All membership payments are made directly to Hogar de Cristo and all costs incurred by the company are agreed to in a budget developed and monitored by the Resource Division.

Product Distribution and Sales and Fee for Service

The product sales and greeting program and advertisements are managed internally through Hogar de Cristo's resources division. The resources division was created at the same time as Providencia S.A., with the intention of separating them from the overall organization while maintaining internal oversight to control management and costs. Prior to this, both the Christmas and Greetings Program cards had been developed and sold by a separate for-profit company that charged Hogar de Cristo a fee for these services.

According to the Acting Finance Director, Ramon Gonzalez, all programs managed by the resources division are designed to generate revenues and each has its own budget and income targets. The activities share certain personnel, mainly for designing and overseeing the printing of the Christmas and greeting cards. The Christmas card project is a four-month activity, which requires contracting additional personnel, whereas the Padre Hurtado items and greeting cards are produced, bought and sold throughout the year.

The resources division also manages the Foundation's small shops, a key outlet for offering the organization's products and greeting services. According to Ms. Sanfuentes, director of the Resource Division, permanent staff handling these activities include 45 employees who work the small shops, 12 collectors of payments for the greetings, three telephone operators who manage incoming orders for greetings and eight administrative staff (director, head of sales, secretary, office clerk, designer, production coordinators). During the four-month Christmas card program, more staff is hired (approximately 30 people) on a contractual basis to sell the

cards and oversee production and sales. The division also works with volunteers who assist with the small shops.

Fee for Services

Hogar de Cristo manages its contracts with the government, the pension payments and the voluntary user fees through the social department (see Figure 1). Again, the feeling is that the staff that is closest to the activity should be the staff that manages the negotiation and implementation of these activities. The persons responsible for negotiating the contracts include the director and assistant director of the department. The social department also solicits and manages the few national and international grants received by the Foundation each year.

Use of Hard and Soft Assets

These self-financing activities are managed by the General Representative Division. Former executive director Julio Viveros, who has been with the Foundation for over 20 years, oversees all legal issues, including the negotiation and processing of the contracts with UNIMARC, the Funeral Home and other private entities. Mr. Viveros is also responsible for managing all large donations including wills, testaments, and all in-kind donations. This area is quite small and includes Mr. Viveros and his secretary.

The Funeral Home is a separate company that has its own board of directors and pays taxes. The General Representative oversees the rent and royalty contracts with the Funeral Home.

Policy and Regulatory Environment

The structure and function of the Foundation's self-financing strategies are closely tied to Chile's tax legislation.

Income Tax

In Chile, nonprofit foundations such as Hogar de Cristo are tax-exempt. They are permitted to undertake self-financing activities as long as these are related to the mission of the organization and as long as the levels of income are not "disproportionately high." If the commercial activities are not mission-related and amount to 50% or more as compared to mission-related activities, the tax exemption may come into question and the organization would be forced to pay 15% income tax on revenues generated. This is the same rate applied to for-profit corporations in Chile.

Most of Hogar de Cristo's self-financing activities are considered mission-related. The Foundation therefore does not pay income tax. Income received from membership dues, Padre Hurtado products, greeting services and advertisements in *Noticias* magazine for members are all treated as donations and are therefore tax exempt. Contract fees paid to the Foundation by the government and voluntary fees for services paid by clients are all tax exempt since they are considered directly related to the Foundation's mission and are also treated as a subsidy.

As private companies, Providencia S.A. and the Hogar de Cristo Funeral Home are set up to generate profit and therefore pay income taxes. After-tax profit is used by Hogar de Cristo for mission-related purposes. While Providencia administers the membership program, dues are paid directly to Hogar de Cristo. Hogar de Cristo Funeral Home receives revenues for the sale of funeral services but keeps its profit low (or non-existent) and thus reduces its tax burden by raising its costs – mostly rents and royalties paid to the parent Foundation.

Value Added Tax

All organizations in Chile, whether for-profit or nonprofit, must pay an 18% value-added tax (VAT). The government charges this VAT for all products and services purchased by the Foundation. For-profit companies can usually pass the VAT on to their clients through the resale of products and services. In the case of Hogar de Cristo, which needs to purchase large quantities of items to run and support hundreds of social service programs, this tax burden is significant. The



Photo courtesy of Hogar de Cristo

Foundation cannot pass the VAT on to its clients, most of whom are poor and receive services for free or for a small, voluntary fee. In this case, Hogar de Cristo is considered the end consumer.

In the case of its self-financing programs, Hogar does sell services and products. However, Hogar treats most of these sales as donations and does not issue a bill or charge the VAT. The only exception is for the sale of Christmas cards, a mission-related product which is sold and for which customers are charged VAT.

Deductions

Individual donations are not tax deductible in Chile. However, Hogar de Cristo benefits from several recently-passed laws that encourage corporate donations:

- Article 47 of Decree Law 3,063 states that a corporation with accounting systems in place that makes a cash donation of no more than 10% of its profit can classify the donation as an expense and deduct it from its income, thereby reducing its tax burden.
- Law 19,247, Donations for Educational Purposes, states that a corporation that makes capital donations for projects that are in collaboration with SENAME and other educational institutions can deduct up to 50% of the donation from its taxes and another 50% from its expenses - a total tax reduction of 42.5%.
- Official communication No. 2691 states that corporations making in-kind donations that are not made for marketing or promotional purposes can deduct the donations as expenses for a value of up to 2% of their annual profit.

Outcomes of Self-Financing

Eight indicators developed by NESsT to evaluate the impact of self-financing strategies on nonprofit organizations show the following outcomes:

a) Maintained or Strengthened Mission – *The venture helped to maintain or further the mission of the organization*

Hogar de Cristo's self-financing programs have undoubtedly strengthened the Foundation's mission. The income generated through self-financing has allowed Hogar to carry out more programs, reach more people in need, and to change the systems and policies responsible for poverty in Chile. In addition, most of the strategies employed by the Foundation give the Hogar de Cristo name more visibility and legitimacy. The resulting enhanced image, in turn, helps to strengthen the Foundation's mission. Whether one is buying a Hogar de Cristo membership, a Hogar de Cristo Christmas card, a Hogar de Cristo greeting, a advertisement in the Hogar de Cristo magazine, or a Hogar de Cristo funeral service, one is endorsing and promoting the work of the Foundation.

Self-financing has not compromised the Foundation's mission. All strategies used are either directly related to or very compatible with the Foundation's mission:

- *Directly-related activities:* Those directly related include charging fees for program delivery (e.g., fees received through contracts with SENAME, FONASA and other entities), as well as pension payments and voluntary user fees. In each of these cases, the Foundation is simply recovering part of the cost for program delivery.
- *Closely-related activities:* Those activities not directly (albeit closely) related to the mission are products and services that Hogar de Cristo provides to meet a certain market demand – while simultaneously giving clients an opportunity to support the Foundation's work. These include the membership dues, the distribution of Padre Hurtado items, greetings and advertisements, and the sale of Christmas cards. In each case, the client is clearly acquiring an Hogar de Cristo product or service and thereby also demonstrating support to the Foundation.
- *Compatible activities:* Finally, self-financing that is not related but compatible to the Foundation's mission is the sale or rental of assets owned by Hogar de Cristo, such as renting Hogar de Cristo property or paying royalties for the use of its name. These are very straightforward transactions that give customers an opportunity to promote their own enterprise with the name recognition and endorsement of Hogar de Cristo. These activities could potentially become incompatible with the Foundation's mission if the relationship jeopardizes the Hogar de Cristo reputation.

Hogar de Cristo clearly gives a greater emphasis (and would like to expand) those self-financing activities that are most compatible with its mission. Due to tight government spending in Chile, the Foundation projects that over the next five years income from its "most mission-related strategy" (program recovery fees) will remain relatively stable. The greatest opportunity for increased income may instead lie with the "second most related strategy" (membership programs), where the Foundation sees greater prospects for growth. According

to several staff members interviewed, the Foundation sees such growth as particularly encouraging, since membership provides a steady, flexible source of financing while also involving more Chileans in the Foundation's work. Hogar de Cristo hopes to intensify its membership recruitment in the next several years.

b) Financially Profitable – *The venture generated a financial surplus (or is projected to)*

As stated by the acting finance director, each of Hogar de Cristo's revenue-generating strategies must cover its costs and generate a surplus. This is true of all of the Foundation's self-financing strategies, with the exception of certain government contracts, pension payments and voluntary user fees. These are purely cost recovery in nature and are designed to help subsidize a particular component of the Foundation's work, not generate a surplus.

The most expensive self-financing programs managed by the Foundation are also those that generate the greatest revenue. For example, the membership program entails an expensive, high level of staffing. But income derived from the program far outweighs these costs. Programs such as the Christmas Cards and the Greetings can be quite expensive to manage and yield a low profit margin. The income derived from these programs comes more from the volume sold. Hogar sells high volumes of the cards through the Affiliates and the Greetings Program is quite popular and used by thousands of Chileans annually.

Easily the least costly types of self-financing strategies of the Foundation are the use of Hogar's hard and soft assets. These strategies require legal expertise provided to Hogar on a pro bono basis and are managed by a staff of two. The Foundation is cautious to expand these programs, however, since the risks of owning property and/or of lending out the Hogar name can be quite high.

c) Diversified Funding Base – *The venture helped to diversify the sources of income of the organization.*

Hogar de Cristo's funding base is highly diversified. In addition to generating revenues from a wide variety of self-financing strategies, the Foundation also has many fundraising programs, such as its Small Change Program and its annual Bread and Wine Supper. It has never been dependent on outside grants as a source of revenue and has seldom even sought this type of funding. There seem to be several reasons for this:

- *Entrepreneurial spirit:* Hogar de Cristo's founder, Father Alberto Hurtado, was very entrepreneurial and from the beginning also structured the Foundation to be this way. Many of the organization's financing strategies, including its self-financing, have an entrepreneurial approach.
- *Business experience:* The Hogar de Cristo Board of Directors is composed mostly of businesspeople who bring entrepreneurial experience, ideas and contacts to the organization.
- *Strong ties with the Chilean community:* The founding philosophy of the organization is that Chileans must solve the problem of poverty. Even during Chile's military dictatorship, when many nonprofits and foundations relied on international

development assistance for their funding, Hogar de Cristo continued to seek resources from Chileans of all income levels.

- *Clear mission and impact:* Hogar's mission attracts direct giving from individuals and corporations, perhaps more than other nonprofits and other foundations because its direct assistance programs have an emotional appeal and show tangible ways for people to feel that they are making a difference.

For several reasons the organization has also diversified its funding base using both self-financing and fundraising mechanisms. Despite the fact that the organization believes that Chileans should be supporting its work, philanthropic support is very low in Chile. The history of giving in the country is very limited. Hogar realizes that it cannot rely on philanthropic support alone and has therefore continued to create and expand its self-financing programs.

Interestingly, the Foundation does not seem to distinguish or differentiate between "fundraising" and "self-financing." Instead, Hogar groups many of the strategies together. For example, the Partnership Area of Providencia S.A. manages the Small Change Program, the Bread and Wine Supper and the One Plus One Program. Although some are straight donations and others are membership dues, the organization sees them as an integral part of their outreach to private companies, requiring the same rationale and approach.

In fact, the diversification strategy used by Hogar de Cristo is driven more by a desire to avoid reliance on any single financing source and to be closely tied to the local community than by a belief in using market-based financing strategies. This distinction is clear in the way the Foundation manages its self-financing strategies: they are treated as commercial activities but revenues generated through them are treated as donations.

d) Increased Organizational Effectiveness – *The venture helped the organization to function more effectively (e.g., improved financial management, improved time efficiency, more enterprising, etc.)*

Hogar de Cristo has continually sought to improve its effectiveness as an organization and its self-financing programs have been at the heart of these efforts. As stated early on, many of the Foundation's current self-financing strategies were initiated many years ago. The primary changes to these strategies have been in their organization or management in order to make them operate more efficiently and effectively:

- *Establishing subsidiaries:* One Foundation strategy to cut costs and increase efficiency has been to create separate legal entities owned and governed by the Foundation but sometimes with separate management. Such is the case with both Providencia S.A. and the Hogar de Cristo Funeral Home - both for-profit companies set up to run a particular business activity to directly (or indirectly) generate revenues for the Foundation.
- *Internal management:* A second Foundation approach has been to bring certain strategies closer to the Foundation's mission and programs. Membership Programs and the Christmas cards were both originally managed by outside firms. Currently they are managed internally through the Resource Division. The Christmas cards are now

closely identified with the Foundation's mission and programs. Although Providencia, S.A. is a separate company it is owned by Hogar, allowing the Foundation to retain a closer link to its members.

- *Consolidation, incentives and cost-cutting measures:* Another Foundation approach has been to consolidate self-financing activities under one division, requiring it to raise revenues and ensure the viability of the organization at the lowest possible cost. The resource division is therefore responsible for the Christmas cards, the Padre Hurtado items, the Greetings Program, the small shops and oversees Providencia, S.A. This consolidation reduces costs and increases impact by sharing personnel with expertise in design, printing and marketing across programs. The fact that many employees in this division are employed on an incentive-based contractual basis (paid on a performance and output basis) allows the Foundation to improve its efficiency and impact. The use of credit card payments and small shops that are provided free of charge to the organization also help keep costs down and increase the Foundation's disposable income.
- *Capitalizing on staff expertise:* A fourth Foundation approach has been to keep self-financing activities close to the people who have the expertise. This is the case with the resources division as well as for other departments and divisions. The social department manages government contracts, pension payments and voluntary user fees. The staff that manages programs with clients is in the best position to negotiate contracts with the government and to try to leverage as much financial support for these programs as possible. These relationships must be carefully managed, since Hogar must balance the support it receives from the government with its own mission to advocate for changes in public policy. Hogar's general representative division is responsible for all rent and royalty programs. The division's access to legal counsel and expertise in the area of contract negotiation is critical.

Many of the cost-reducing and impact maximization strategies Hogar de Cristo has instituted for its self-financing activities have also been replicated to improve the performance of its social programs. According to Mr. Viveros, the Foundation has spun off activities that it felt should and could be handled by a separate entity. For example, in the housing area, the Foundation created the Fundación Vivienda, "a first cousin of Hogar de Cristo" as a totally separate organization that provides housing to low and middle income groups in Chile. Originally, this had been an activity managed by Hogar itself. The same is true for Fundación Padre Lavin and Fundación Rodrigo Zaldivar, organizations that work directly with youth and people with disabilities. All of this has been done to avoid "elephantizing" the Foundation - making it too big to be truly effective.

e) Improved Relations with Constituents – *The venture improved or did not negatively impact the organization's relations with any of its constituents (staff, volunteers, board, donors, public, community)*

Hogar de Cristo's use of self-financing strategies has not had a negative impact on its relations with its stakeholders. The Foundation's clients have not been seen or "used" as a key source of income. User fees are voluntary and only those clients who are able to pay do so.

The board, staff and volunteers of the organization fully support the organization's entrepreneurial approach. As mentioned earlier, many of the board members are businesspeople who believe it is important for the Foundation to tap into a wide variety of income sources. The staff and volunteers, who are close to the social mission of the organization, do not seem to consider self-financing a compromise of values, but, rather, as a very important source of support.

Externally, the organization has a very positive image in Chile. Its self-financing programs have given it great visibility and have provided numerous opportunities for Chileans to show their solidarity and support. The Foundation has received criticism from some who feel it is "too big" or behaves "too much like a corporation." In response to this criticism, the Foundation is careful to continually show that its main purpose is to help the ever-increasing numbers of poor and disenfranchised – a significant task requiring ever-increasing resources and creative income-generating approaches.

The Foundation has also placed limits on what it is willing to do to generate revenues. Royalty contracts are few and will probably be reduced over time. The Foundation does not want to be seen as a corporation, which sends the wrong message and could be harmful to its mission. One of the contracts it now holds with a large private company has been somewhat detrimental to the foundation's image, since the public assumes (incorrectly) that Hogar owns the company when, in fact, it receives a relatively small royalty payment in exchange for the use of its name and logo. According to Julio Viveros, head of the general representative division, this is not a strategy that Hogar will maintain in the future.

Interestingly, the organization has confronted quite a bit of competition in self-financing activities from other nonprofit entities. The use of memberships and the sale of Christmas cards are increasingly popular strategies. However, the organization welcomes this competition, believing that there is much to be done and much room for increasing the support of the Chilean middle- and upper-classes for its mission.

The Foundation has been particularly hard hit by outside competition in its Christmas card market. However, the fact that Hogar sells cards to its fifty affiliates keeps the per-unit cost of the cards competitively low and makes them still worth producing. In addition, according to Ms. Sanfuentes, Director of the resources division, the cards generate visibility and customers would be extremely disappointed if Hogar were to discontinue their distribution.

f) Benefits Outweigh Costs – *The benefits (financial and non-financial) of the venture outweigh the costs (time, effort, money) in relation to other financing methods*

For Hogar de Cristo, the benefits of self-financing far outweigh their costs. The Foundation realizes that the only way to raise the level of revenues needed to run its programs is to be as enterprising as possible. The revenues yielded far outweigh the 17% cost of running its self-financing programs. In addition, self-financing has led to greater efficiency within the organization and has had a positive impact on its mission and image.

It is difficult to know from experience whether self-financing benefits outweigh those of grant seeking since the Foundation has never really relied on grant-seeking as a source of income.

It can be assumed, however, from knowledge of other organizations and of grant funding in general, that grants would not yield the same levels of funding that the Foundation currently needs to run its programs. Also, in the past ten years, international grant support has significantly decreased in Chile, making grant-seeking an even less attractive alternative for the future.

The benefits of self-financing are difficult to separate from those of Hogar's fundraising since the Foundation tends to integrate the strategies so closely. The Foundation often uses the same personnel and internal structures to carry out these strategies, leveraging more income by maximizing the use of its internal expertise. Both types of strategies also offer flexible funding. They also allow the Foundation to reach groups of varying income levels and to reach the same individuals through various channels. For example, a member can also purchase Christmas cards and a greeting for a loved one. A donor of the Small Change Program can also be a member and use Hogar's funeral services.

g) Increased Flexible Funding – *The venture helped generate a greater amount of “flexible” (i.e., untied, unrestricted, unearmarked) income for the organization*

In 1998, 82% of Hogar's funding came from self-financing, 69% of which came from self-financing activities that generated totally untied, flexible funding. The only portion of Hogar's income that is tied to specific programs is the 10% that comes from government contracts and the less than 3% that comes from pension payments and voluntary user fees. Neither Hogar's self-financing programs nor its fundraising programs tie revenues to specific programs or people. This is a sizable amount of flexible funding, which allows the Foundation significant liberty to spend its revenues as it sees fit.

h) Allows Longer-term Planning – *The venture allowed the organization to plan more autonomously and more long-term*

The fact that Hogar de Cristo relies heavily on self-financing income, income that is flexible and steadily rising, provides it with ample opportunity to plan ahead. The Foundation has developed several long-term plans and uses them to guide its work in existing areas as well as areas that are new and need further involvement. The Foundation is extremely attuned to the new social problems and needs and tries to plan ways to confront them.

The fact that it manages multiple self-financing programs that require up front investment of time and capital requires planning. Each of the Foundation's revenue-generating programs is planned far in advance in order to decrease costs and generate the highest level of income. The Foundation also constantly evaluates these efforts, seeking ways to further minimize costs and increase output.

Lessons Learned

Balancing the entrepreneurial with the social

Hogar de Cristo runs all of its revenue-generating programs, whether self-financing or fundraising, using an entrepreneurial approach. The organization uses sophisticated

marketing techniques. It hires skilled staff. It is structured wisely and efficiently. Yet Hogar manages this “business like approach” with a soft heart. For example, although telemarketing is a less expensive way to obtain membership dues, the organization continues its door-to-door method. It knows that its members value this personal touch. It also charges a nominal fee to its clients. And, even though its Christmas cards are an expensive undertaking, with a low profit margin, the organization continues to produce them, maintaining their traditional style of operation.

A very effective marketing technique

Many of Hogar de Cristo’s activities are managed as commercial activities, attuned to market demand and price. The organization knows that simply asking for money is not enough. The Membership Program “sells participation in the work of the Foundation,” according to Ramon Gonzalez, Acting Finance Director. It is not a simple donation; members pay to belong. Padre Hurtado items, Christmas cards and greetings are exchanges of products and services for a fee or donation but they are also an act of support for the Foundation.

Bigger is not necessarily better

Hogar is constantly working to dispel its image as a very large corporation. It has spun off some of its program areas. It also provides one-third of its budget in the form of grants to outside organizations. However, for some, the organization is too large and does not need assistance. How Hogar organizes itself to respond to increasing poverty, unemployment and drug abuse in Chile while at the same time keeping a personal approach to its programs and revenue-generation will continue to be a challenge in the years to come.

Tradition and experience are difficult to replicate

The advantage provided by the image of Padre Hurtado is unique to the organization and plays an immeasurable role in its ability to generate income. Most organizations do not have a religious figure as a founder nor are they all working in areas that are as emotionally appealing as those undertaken by the Foundation. Hogar de Cristo is a household name in Chile - something that cannot be said of any other organization in the country. It also has a 52-year history of accomplishment that is difficult to replicate a history that is based on a tradition of Chilean philanthropy and charity closely tied to the Catholic Church.

Quality and customer satisfaction are still key

Hogar de Cristo, however, takes none of this support for granted. Though the Foundation relies on its history and reputation, it also knows that it must deliver a high quality product and that its members and customers are as critical as are its clients. The Foundation is constantly working to meet market demand, to satisfy its members and its customers. A corps of over 300 people is hired to visit members door to door. Time and resources are spent on ensuring quality in the design and printing of the cards in order to make them as appealing as possible. Business plans, projects, outsourcing, and competitive bidding are all practices that are used by the Foundation to keep costs down and quality up - strategies that are competitive and market-conscious but guided by a selfless mission.

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