



The Synergos Institute

**Options for Financial Sustainability**  
Collaboration Between Civil Society and  
Development Agencies in Southeast Asia

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2003

This study is part of a series produced with support from the Sasakawa Peace Foundation

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## Introduction

In their recent efforts to increase the impact of bilateral aid on poverty, inequality, and injustice, official development assistance (ODA) agencies have sought ways to directly support community level initiatives. This search for more effective ways of delivering financial and technical assistance has been driven by increasing dissatisfaction with the failure of many governments to provide adequate opportunities for the poor. In some cases it has also been initiated in response to pressures from constituencies in the home countries, particularly from non-governmental organizations (NGOs). The result has been the creation of a diversity of new funding channels, many of them involving NGOs, both in the host and donor countries.

The approaches range from ad hoc small grants programs directly managed by ODA agency staff in country to carefully crafted strategies that seek to build strong civil society-managed funding institutions that are sustainable and act as a buttress against arbitrary and authoritarian governments. As awareness of the complexities of delivering resources directly to communities has increased, ODA agencies have come to appreciate the role that local independent intermediary organizations in civil society can play. In their most advanced form, such organizations have been given endowments through debt swaps and other mechanisms and have become institutions with capacity to have a lasting impact in a given field. Specifically, these are local organizations that can successfully bridge between communities and resources (financial, intellectual, human, and other) and are thus distinct from any NGO. As a bridging organization, they mobilize and facilitate the transfer of financial resources to NGOs and other more informal associations while also convening stakeholders around critical issues and building the capacity of civil society.<sup>1</sup>

ODA agencies have learned much from these varying approaches to working with civil society. Little analysis has been conducted, however, of what worked, including the how and why, and few attempts have been made to share the balance sheet more widely.<sup>2</sup>

This study addresses this lack of analysis by examining a range of different ways ODA agencies and civil society have collaborated in Southeast Asia and specifically in Thailand, Indonesia, and the Philippines. ODA agencies have been active in this region for more than a decade. In the wake of the Asian economic crisis, several increased their commitments to these countries, established unique partnerships with emerging organizations, and some even seeded the start of new organizations. For its analysis, Synergos selected six ODA programs and assessed the degree of decision-making autonomy on funding matters delegated to the NGO or NGO community by the ODA agency as well as the sustainability of

1 Consensus over the terminology for such organizations has not yet been reached, though they are often referred to as “foundations” or “community development foundations” in recognition of the role they have in common with foundations of the United States, Canada, and parts of Europe. In Southeast Asia, the term “civil society resource organization” – or CSRO – has also been used.

2 An exception has been the attempts by CODE-NGO in the Philippines to assess the effectiveness of ODA strategies for engaging the NGO sector in aid delivery. The Synergos Institute also commissioned a study in 1999 (unpublished) by Draimin and Smillie of the effectiveness of cooperation between ODA agencies and Southern foundations. It drew on six case studies of Southern grantmaking foundations and questionnaire responses from 49 foundations.

<sup>3</sup> We are grateful to the following agencies for their cooperation in agreeing to the preparation of the cases: the Canadian International Development Agency, the Japanese Ministry of Foreign Affairs, the Japan International Cooperation Agency, the United States Agency for International Development, and the Swiss Agency for Development and Cooperation.

the funding mechanisms developed between the ODA agency and NGO(s) involved.<sup>3</sup> Out of this analysis, three broad categories – or options – emerged for how ODA agencies and civil society can collaborate. In addition to laying out each option, the challenges and advantages of each are explored. Suggestions are made to ODA agencies and civil society to inform current dialogue on further strengthening the impact of aid programs.

## Three Policy Options

The collaborative processes between ODA agencies and civil society analyzed for this study fall into three broad policy options, each of which can be seen along a spectrum of degrees of engagement and collaboration. Options one and two possess a number of variants.

Option 1 resides at one end of the spectrum representing a policy in which funds are delivered to civil society organizations through mechanisms controlled by the ODA agency and are characterized by short-term funding arrangements.

Option 2 occupies an intermediary position in which a significant degree of sharing of decision-making with civil society organizations over the allocation of resources occurs. Some sustainability in the form of permanent organizations may be achieved but these stop short of creating endowments.

Option 3 results in the creation of autonomous endowed organizations and therefore the maximum amount of delegation of decision-making control to civil society and the greatest degree of financial sustainability.

Following a brief overview of the three options, short case studies with conclusions are provided.

### **Option 1 – Creation of a Small Grants Program Managed by the ODA agency**

This is the most common approach used to channel ODA funds to civil society organizations in the three countries studied. These small grants programs seek to respond to local needs and usually fund micro-projects within specific regional and thematic priority areas determined by the ODA agency. Some of these programs include mechanisms for consultation with civil society representatives on the choice of priorities and selection of beneficiaries.

The first variant of this option is one in which the program is managed directly by ODA staff but where, on a selective basis, local organizations are involved in selecting the beneficiary NGOs and providing technical assistance. This variant is represented by the Japanese Embassy Grassroots Grants Program in the Philippines.

A second variant is where an advisory board, with a majority of its members drawn from civil society and with regional representation, selects grantees and recommends them for approval. This variant is represented by the Philippine Australia Community Assistance Program funded by AusAID.

The third variant involves some delegation of decision-making to local NGOs. The ODA agency passes funds to one or more large NGOs that manage the resources and together implement a mutually agreed program that can include sub-granting to smaller NGOs and community-based organizations. An example of this approach is the Community Empowerment Program funded by JICA (Japan International Cooperation Agency) in Indonesia.

## **Option 2 – Creation of an NGO-managed funding mechanism**

Under this option, a development assistance program is implemented in partnership with a local NGO or consortium of NGOs. Over time, it may result in the creation of an endowed organization with the capacity to continue to pursue the goals of the original program in perpetuity, although this may not be the initial design for the initiative. This approach is represented by the two Canadian International Development Agency (CIDA) cases – PDAP (The Philippine Development Assistance Program) and LDI (Local Development Institute) in Thailand. A similar case is Yayasan Penguatan Partisipasi Inisiatif dan Kemitraan Masyarakat Indonesia (YAPPIKA – Foundation for Strengthening People’s Participation, Partnership and Initiatives). It began as a CIDA-supported NGO-managed funding mechanism and became a permanent organization, though without an endowment.

Other cases fitting this option that have not yet evolved into permanent independent institutions are CACEDI (Canada Assisted Community Enterprise Development, Inc. – now Community Arts and Crafts Enterprise Development), also funded by CIDA, and NIPA (NGO for Protected Areas, Inc.) funded by the World Bank’s Global Environment Facility.

A variant of Option 2 involves the creation of a new national fund to which ODA agencies contribute on a multi-year basis. The Community Recovery Program (CRP) or Program Pemulihan Keberdayaan Masyarakat (PKM) in Indonesia is the one case that falls into this category. Under this option, funds from four ODA agencies – the UK Department for International Development and the governments of the Netherlands, Sweden, and New Zealand – are managed by the United Nations Development Programme through the mechanism of a trust fund. Disbursement of these funds is made in accordance with guidelines established by the donors in consultation with the NGO sector and government. Beneficiaries are selected by a board whose members are drawn in their majority from civil society.

## **Option 3 – Creation of an Independent, Endowed Organization**

Under this option, a donor government decides to negotiate the creation of a new permanent endowed fund in a beneficiary country in order to channel grants or loans to civil society organizations in pursuit of specific program goals. This usually occurs as part of a debt

swap or debt forgiveness program between the two countries. The endowment fund is invested, and only the earnings are used to fund grants and loans and cover core institutional costs. This is distinct from Option 2 in that the decision is made upfront that this form of endowed organization will be created.

This option is represented by the Foundation for the Philippine Environment (FPE), created with support of the US Agency for International Development (USAID), and the Foundation for a Sustainable Society, Inc. (FSSI) in the Philippines, created with funds from the Swiss government.

## Case Studies of Policy Option 1

<sup>4</sup> This summary is derived from a case study on Japan's Grant Assistance for Grass Roots Projects in the Philippines, written by Angelita Gregorio-Medel.

### Case 1A: Grant Assistance for Grassroots Projects in the Philippines<sup>4</sup>

#### Background

The Grant Assistance for Grassroots Projects (GAGRP) was created in 1989 to enable the Japanese Ministry of Foreign Affairs to respond to requests for support to small-scale initiatives at the local level. This decision reflected the government's recognition of the increased role that NGOs in Japan and other countries were coming to play in development assistance. This decision was also influenced by the success of small-scale grant assistance schemes operated by donor countries such as Canada and the UK.

Each diplomatic mission was given full autonomy in handling GAGRP resources and deciding on program priorities, grantees, and size of grants. Responsibility was usually vested with a career diplomat who handled this program in addition to other responsibilities. It was rare to have anyone with development expertise managing the program on a full-time basis.

The case of the Philippines is particularly worthy of analysis as the program has evolved from one with limited visibility to one that is now recognized by civil society leaders as playing an important role in supporting grassroots initiatives. In great part, this is a consequence of hiring the right person to run the program – a specialist with a strong background in the nonprofit sector and international development as well as prior knowledge of the country and its NGO sector.

Since 1999, when program priority areas were agreed on with the Philippines government, grants have focused on poverty alleviation, human resource development, disaster management, environmental conservation, and on issues particular to Mindanao in the southern Philippines. Between 1998 and 2001, the percentage of grants made to NGOs increased from 53.6 percent of all grants made to 90 percent of all grants made. Demand for small grants (up to US \$60,000 each) far exceeds the resources available. (In 1999, for example, 700 applications were received and only 36 approved.)

GAGRP officials in the Philippines have supported very practical projects involving infrastructure development, small-scale construction, and the acquisition of equipment. Grants are usually designed to complement larger funding from other donors including JICA and JBIC (Japan Bank for International Cooperation). In a few cases, GAGRP actually worked in partnership with Filipino organizations in order to identify projects and provide assistance.

### **Impact**

GAGRP has channeled US \$5.5 million to 173 projects in the past five years. While this only constitutes .01 percent of Japanese ODA to the Philippines, responses from 20 NGO leaders interviewed indicate that this has been a good investment. They said that the program provides important counterpart or supplemental funding for NGOs, often enabling them to leverage other resources. They also expressed the view that the GAGRP coordinator for the past few years has given the Embassy of Japan a “human face” and inspired trust and confidence.

Synergos was especially interested in identifying cases where GAGRP staff had used a local intermediary organization to identify projects and provide support in project implementation. We wanted to test the assumption that these intermediaries could enhance the effectiveness of the program. Other ODA agencies we have interviewed have realized how difficult and expensive it is to give small grants directly to grassroots organizations and have come to rely heavily on such intermediaries or created new intermediaries to assist in this task. Two cases of this nature were examined.

#### *Philippine Business for Social Progress*

Philippine Business for Social Progress (PBSP), one of the oldest foundations in the country with a strong track record, channels contributions from more than 150 companies to community self-help programs and directly manages community development programs. PBSP staff also helps link community organizations with which they work to complementary funding. In the case selected, PBSP officials had recommended that a rural cooperative it supported (KAMAHARI) apply to GAGRP for a grant to purchase a farm tractor and implements. GAGRP approved the proposal largely on the basis of PBSP’s endorsement.

For GAGRP, the fact that KAMAHARI was receiving PBSP’s support was a guarantee that their resources would be well-managed, that the financial reporting would be in order,

and that systems would be in place to ensure that equipment was properly used and maintained. (GAGRP also knew that the grant would have a positive impact because it was part of a long-term program with a strong training component.) PBSP and GAGRP agreed that the KAMAHARI staff would deal directly with GAGRP staff in order to strengthen the organization's feeling of ownership of and responsibility for this relationship.

*Foundation for a Sustainable Society, Inc.*

The Foundation for a Sustainable Society, Inc. (FSSI) is an endowed private organization created with the support of Swiss ODA. It provides loans and grants to ecologically sound community enterprises. It also links its partners to other sources of funding and technical advice.

*Working in partnership with a strong local intermediary organization such as a foundation can significantly enhance the efficiency and impact of an ODA agency's small grants program*

In the case we looked at, FSSI was supporting the NGO IDEAS (Institute for the Development of Ecological and Educational Alternatives, Inc.) to develop a municipal waste management program for the town of Silang. It involved the creation of a corporation jointly owned by IDEAS, FSSI, and local stakeholders. FSSI suggested that IDEAS apply to GAGRP for complementary funds to build a warehouse and purchase additional equipment. According to GAGRP, the fact that IDEAS was already receiving support from FSSI weighed heavily in GAGRP's decision to approve the project. As the case writer argues, FSSI's reputation for selecting and working with partners very rigorously, including close monitoring and technical support, meant that IDEAS immediately received a "stamp of approval." GAGRP figured that because their grant was also part of a much larger whole, its potential impact was greater.

### Lessons Learned from GAGRP in the Philippines

**Lesson: A responsive small grants program can be tailored to meet local needs and fill critical funding gaps.**

The experience in the Philippines demonstrates that the small grants program can play a very useful role in complementing other donor programs in critical areas such as infrastructure development. It can also assist NGOs in leveraging other resources.

By working in partnership with a strong local intermediary organization to identify grassroots projects, the efficiency and impact of the program can be enhanced in the following ways:

- A local intermediary organization can identify grassroots groups and assist them in designing project proposals that optimize ODA funds.
- A local intermediary organization can ensure that necessary technical assistance and training inputs are provided in order to ensure maximum impact.
- A local intermediary organization can ensure that the small grant complements other funds appropriately.
- A local intermediary organization is able to help mobilize additional support from other sectors.
- A local intermediary organization can assist with project monitoring and evaluation.

5 This summary is derived from a case study on JICA's Community Empowerment Program in Indonesia by Sarah Maxim.

## Case 1B: The Community Empowerment Program in Indonesia<sup>5</sup>

### Background

In the early 1990s as Japan's economy began to stumble, Japanese voters and its small NGO community increasingly demanded more transparency and accountability in ODA spending. At the same time, ODA agencies from other countries were recommending that Japan review its long-accepted policies that emphasized the construction of infrastructure projects funded by loans largely.

The combination of domestic and international pressure led to a re-examination of Japan's ODA and resulted in a decision by the Ministry of Foreign Affairs to develop new policy guidelines that would increase aid efficiency and impact. The policy included a greater emphasis on the implementation of projects through NGOs.

JICA responded to the new ODA policies by giving attention to "people-centered development" and self-help approaches to meeting basic needs. As a reflection of this new emphasis, JICA developed its Community Empowerment Program (CEP) in 1997.

In Indonesia, CEP was launched in 1999 and grew out of work JICA had undertaken with NGOs as part of an emergency humanitarian assistance program designed to respond to the economic crisis in 1998. The aim of CEP is to provide support for long-term development, including institutional development and capacity building. A key strategy to achieve this is to develop partnerships with NGO intermediaries. All programs should emphasize community empowerment and poverty reduction. As of 2001, CEP had partnerships with three local NGOs and plans to expand to 20 NGOs.

### Impact

At this time, the initiatives of CEP are still new enough that impacts can only be surmised. A decision was made at the outset to focus on support for projects in Eastern Indonesia. This reflected the Indonesian government's regional priority and enabled JICA to build on the contacts and information generated in its emergency relief work. By concentrating on training, technical assistance, and small-scale infrastructure development, CEP was designed to complement other JICA programs in the region.

CEP established three NGO partners in the region, each of which redistributes resources and technical assistance to other civil society organizations. As partners, they offer CEP useful information on local needs and access to a wide range of community based organizations and small NGOs in remote areas not reached by other programs.

The case study indicates that the relationship of these partners to JICA is more like that of a program contractor rather than a grantee. Partners agree to a technical assistance program with clear goals and activities and a detailed set of procedures for monitoring and evaluation.

Under current leadership, CEP has incorporated two broader goals beyond community empowerment in the selected localities. The first is opening up better communication

between CEP partners and local and provincial governments for the exchange of information and experience with an aim to have a more participatory planning system. The second is documenting the CEP experience and sharing the learning with government and other ODA agencies.

#### **Lessons Learned from the Community Empowerment Program in Indonesia**

**Lesson: The strategy of partnering with large intermediary organizations in the delivery of the program offers a number of benefits.**

Such organizations can provide JICA staff with reliable information on local needs and how community based organizations and local NGOs address those needs. It can save JICA staff the time and cost of visiting remote areas. It is important, however, to select strong intermediaries with sufficient vision and management skills. Given the complexity of bringing about change at the local level, CEP could consider how it might delegate more decision-making power to local intermediary organizations and allow for greater flexibility needed to respond to changing situations. This necessitates the agency having a high level of trust in the intermediary selected.

**Lesson: The skills and experience of local JICA staff are critical in achieving success.**

Between 1998 and 2002, the Indonesia program benefited from having a director with experience in working with NGOs, local language skills, commitment, and vision for the program. He succeeded in gaining the trust and confidence of Indonesian NGOs and helped build bridges between NGOs and the government.

## Case Studies of Policy Option 2

<sup>6</sup> This summary is derived from a case study on the Local Development Institute in Thailand, written by Dr. Pimjai Surintaraseree.

### Case 2A: The Local Development Assistance Project of Thailand<sup>6</sup>

#### Background

CIDA has had a presence in Thailand since 1981. With a strong interest in community development and poverty alleviation and an awareness of the limitations of government agencies, CIDA officials made efforts in the early 1980s to reach out to the NGO community. Officials at the time became convinced that NGOs had significant, though untapped, potential to engage in effective work at the community level. One outstanding local NGO leader, Anek Nakabatura, was able to capitalize on this interest and craft a proposal to create a Thai organization with broad representation from a range of stakeholders, to channel grants to community level initiatives. This proposal was the starting point for a negotiation involving the Canadian and Thailand governments that resulted in the creation of the Local Development Assistance Project (LDAP).

#### *Phase 1 (1985-90) – The Local Development Assistance Project*

LDAP was launched in 1985 as a five-year program to channel small grants to local development initiatives. It contained the following innovative features:

- a Project Review Committee (PRC) representative of major stakeholders that reviewed project proposals and gave general guidance and direction to the program
- revolving loan funds and collateral for commercial bank loans for the poor, in addition to grants
- use of 15 monitoring and evaluation teams from academic institutions and NGOs that assisted grantees in project implementation and promoted learning among stakeholders.

An evaluation of LDAP in 1990 demonstrated a number of gains as a result of the program, including an increase in NGO capacity in project management and the creation of NGO coordinating committees at regional and national levels to engage in dialogue with government.

Faced with strong requests from the Thai NGO community for a continuation of LDAP, CIDA staff entered into negotiations with the PRC. A limitation of LDAP recognized by the group was its insufficient attention paid to NGO sustainability. The negotiations resulted in the creation of two joint organizations that would have the capacity to develop long-term programs to strengthen the role of the NGO sector, not only in supporting micro-projects at the grassroots level but also in helping to shape government social policies.

*Phase 2 (1991-98) – Creation of the Local Development Foundation and Local Development Institute*

Due to laws in Thailand that don't permit operating NGOs to also act as grant- or loan-making organizations, two entities were created in 1991 with the financial support of CIDA. The Local Development Foundation (LDF) is the legal entity receiving funds. It is a registered Thai foundation under the patronage of Her Royal Highness Princess Sirindhorn. Royal patronage helped the organization gain credibility within all sectors of society. All funds raised by LDF are managed by its sister organization called the Local Development Institute. LDI is an operating and grantmaking nonprofit organization with its own board of directors, executive board, and professional staff. While CIDA could not legally grant an endowment to either organization, it allowed LDI to retain approximately US \$660,000 from the repayment of loans to small-scale enterprises as a "quasi" endowment. In addition to handling the small grants program, LDI was given responsibility for conducting policy research related to participatory social development, provision of support to NGO networks (both regional and thematic), and development of links between community and commercial enterprises.

A review carried out soon after the start of Phase Two led to a number of organizational changes. The principal one was the delegation of responsibility for the approval of grants and loans to regional committees. As a condition for the change in grant approval procedures, each regional committee was required to produce a regional plan identifying priorities for which grants were to be given. This resulted in a sharper focus on specific local needs and the provision of additional opportunities for learning between grantees. Another change was the decision that LDI, in addition to grants and loans, would provide NGOs with increased support for capacity building by establishing partnerships with specialized training institutions. It was also decided that LDI would provide financial support to 13 thematic NGO networks (including children, women, hill tribes, and human rights). This was seen as a way of sharing, learning, and increasing coordination in dialogue with the government.

### **Impact**

An evaluation showed that CIDA's investment of US \$6 million between 1991 and 1998 achieved significant impact on a number of levels. Overall, a total of US \$3 million was channeled in grants to 117 community projects at the grassroots level. The final project evaluation concluded that the regional grant approval mechanism proved to be a strong model

for distributing and managing project grants. Evidence of this is the fact that other donors such as the Canada Fund, UNICEF, and the Danish Cooperation for Environment and Development now channel funds through these regional committees.

LDI used CIDA funds and leveraged other resources to conduct groundbreaking research into the underlying causes of poverty and has been successful in ensuring that research results influence the formulation of new national policies. LDI also played an important convening role around public policy issues affecting rural and urban communities. It also ensured community rights over resource management made its way into the country's Eighth National Economic and Social Development Plan. In addition, LDI played an important role in strengthening links between NGOs on regional and thematic levels as well as increasing civil society's ability to identify and learn from best practices.

Internal and external evaluations conclude that CIDA's strategy of supporting LDAP and LDF/LDI has had a positive impact on the development of civil society organizations, contributed to building bridges between civil society and government, and resulted in public policies that are more responsive to the needs of the poor. What is more, the program wisely invested in building a strong professional organization and regional infrastructure with the capacity to continue supporting micro projects, policy research, and public dialogue for years to come.

With the onset of the Asian economic crisis and no significant endowment, LDI has been unable to continue its small grants program and forced to seek other revenue to cover its core costs. It has managed to do this through a combination of selling publications, rental income, using donated office space, and acting as a secretariat for projects implemented by other agencies. Thanks to its solid track record for program management, it has succeeded in attracting sufficient funding from a range of sources including Thai government agencies, other ODA bilateral and multilateral agencies, and organizations such as the ASIA University Network. Its major challenge now is to raise an endowment and more immediate program funds.

<sup>7</sup> This summary is derived from research conducted by Milo Casals.

## **Case 2B: The Philippine Development Assistance Program<sup>7</sup>**

### **Background**

CIDA has had a presence in the Philippines since the early 1980s. In the last years of the Marcos dictatorship, CIDA entered into discussions with Canadian and Philippine NGOs in order to create a mechanism for channeling aid funds from its Partnership Branch directly to Philippine NGOs. The main purpose was to tackle the issue of increasing poverty, particularly in rural areas.

These discussions were successful in many ways. First, a number of leaders of key NGO consortia were willing to work together to prepare a funding proposal to CIDA. Second, the most prestigious business school (the Asian Institute of Management) and a leading auditing firm were prepared to be involved in the program and provide support for capacity-building

activities for Philippine NGOs. Third, many Canadian NGOs were willing to raise counterpart funds for programs in the Philippines (a requirement of the CIDA Partnership Branch).

Before negotiations were concluded, Marcos was removed from power and Corazon Aquino became President. With the return to democracy, CIDA saw an opportunity to bring the government into the negotiations. The outcome was the creation of PDAP, which over the past 14 years has constituted CIDA's main effort to reduce poverty and inequity in the Philippines. The program has evolved through three phases.

#### *Phase 1 (1986-89) – PDAP*

The purpose of the program was to assist the Filipino poor in their efforts to address poverty, inequity, and structural injustice. This was to be achieved by providing small grants to NGOs and POs (people's organizations) for community-based projects, capacity building, and development education. CIDA provided CAD \$5 million in grant funds.

PDAP's Philippines Secretariat, which played a facilitating role in the project, had 5 founding members: the Philippine Business for Social Progress; the Association of Foundations (representing over 100 NGOs and grantmaking foundations); Assisi (a large private foundation); ANGOC (a regional support organization for NGOs based in the Philippines); and PhilDHRRA, a NGO network. These members had the responsibility of endorsing and forwarding proposals for support by Canadian NGO partners. Overall responsibility for governing PDAP was vested in two boards: PDAP Philippines and PDAP Canada. A Joint Philippines-Canada Program Committee annually reviewed the program and undertook strategic planning. CIDA had observer status on the Joint Committee.

The externally conducted evaluation of Phase 1 indicated that while PDAP was extremely successful in linking Philippine and Canadian organizations, it acknowledged that given the wide diversity of micro-projects supported, it had proven difficult to develop a cohesive and comprehensive program and measure overall impact. The outcome of this evaluation and a CIDA partners' meeting led to the decision to move to a more proactive and focused strategy in Phase 2.

#### *Phase 2 (1989-96)*

Officials decided to focus on a limited number of program areas in order to increase impact under the theme of agricultural sustainability. To complement the project grants, a Technical Support Group was created to promote and train PDAP NGO partners in organic agricultural practices. Institutions were also set up with the capacity to support micro-economic projects following the end of CIDA funding. This program resulted in the creation of a Marketing Assistance Program in 1991 and a Central Loan Fund Program in 1994, managed by PDAP.

External evaluations for Phase 2 indicated that the move towards a greater focus on sustainable agriculture and the creation of a Central Loan Fund proved an effective strategy.

It helped to build the capacity of NGOs, strengthened community self-help initiatives, and built on the strengths of PDAP partners.

Other indicators of positive program impact were:

- PDAP enhanced the capacities of Philippine organizations to act as networks for policy advocacy and service providers.
- PDAP was well managed and enjoyed high credibility among its members, NGO partners, and participating communities.
- Case study research showed measurable economic impact, both on direct beneficiaries and the larger community.
- PDAP provided a training ground for NGO leadership development.
- PDAP proved an efficient way of administering ODA funds. The presence of the PDAP secretariat reduced CIDA administrative costs.

### *Phase 3 (1996-present)*

In designing the third and final phase of PDAP, CIDA introduced a new programmatic focus in response to changing priorities at CIDA Headquarters and the outcome of both the Country Program Review and external program evaluations. The main change was to sharpen the sectoral and geographic focus of the program under the title Promoting Participation through Sustainable Enterprises. While the emphasis continued to be on poverty reduction through sustainable agriculture, the focus shifted to be on the creation of sustainable enterprises for the rural poor with credit, rather than grants, playing an important role.

Instead of responding to project proposals from around the country, CIDA decided PDAP would concentrate on ten pre-selected sites. In each site, PDAP facilitated the creation of an Area Development Plan by all stakeholders. Continuing effort was placed on capacity building for NGOs and POs.

A mid-term program review recorded achievements at three levels. At the household level, the program noted modest increases in productivity, a decrease in production costs, and a diversification of income sources. The evaluation also noted that the program had succeeded in transforming agricultural workers into owner-cultivators.

At the organizational level, participating organizations improved their operations, established contacts with other institutions, and increased women's participation in leadership positions and project implementation.

At the policy level, Area Development Coordinating Committees were formed to coordinate policy advocacy and the networking of PDAP, NGOs, POs, and other local stakeholders at each site through the organization of development forums.

One indication of success is that PDAP has been able to generate additional resources from other ODA sources to increase program reach and impact.

## Impact

The PDAP case is an excellent example of how aid programs might need to change over time. It is also a good example of how a focus on institutional development does not mean that expertise in grantmaking and lending has to be lost. As early as the second phase, CIDA and program partners were considering strategies to ensure program continuity on completion of program funding. As a result, PDAP continues to be a valuable resource for the management of CIDA funds and other ODA and government funds. Moreover, CIDA was able to leverage additional resources for the program by engaging Canadian NGOs with Filipino NGOs.

*Through CIDA's support for building local foundations, the agency has demonstrated a capacity to learn from experience, to work closely with partners in both countries, and to adapt to changing realities over time to achieve greater impact*

CIDA selected strong partners in the Philippines with the ability to develop an efficient PDAP Secretariat. CIDA had the vision to invest in the institutional development of the Secretariat to the point that it became a strong permanent intermediary with the capacity to manage projects for other ODA agencies and government departments. The investment in the development of operations and systems for monitoring and auditing projects generated confidence in PDAP and made it attractive to other donors.

CIDA's strategy of moving towards increasing thematic and geographical focus enabled it to increase its impact at both the micro and policy levels. For example, the focus on sustainable agriculture produced results that influenced policies of the Department of Agriculture (DAR). The DAR has adopted the PDAP approach to sustainable development, thereby greatly increasing the impact of CIDA's investment. PDAP has also proven to be an effective partner for CIDA in working in areas of conflict in Mindanao where government institutions are weak.

CIDA showed a capacity to learn from experience, to work in close consultation with partners in both countries, and to modify the strategies of the initiative in order to achieve greater impact.

### Lessons Learned from the CIDA Experience with LDI and PDAP

**Lesson: In designing a program to strengthen civil society and impact on poverty, it is important to build on the leadership and experience of existing NGOs in the country.**

In both cases, CIDA staff based in the country developed relationships with the leaders of key NGOs. In the case of PDAP, the bi-national consortium of NGOs could have been unwieldy, but by selecting strong partners at the outset they avoided complications. CIDA then consulted at length with them in designing the program to ensure it responded to the needs of civil society and built institutional capacity for the long term.

**Lesson: In creating a new organization to manage ODA funds, priority has to be given to the following aspects of organizational development:**

- Well-qualified professional and administrative staff should be recruited.

- Respected leaders for the board and program committees should be recruited (where there is close involvement of NGOs in both the donor and host countries parallel boards could be created). In cases where the program seeks to build bridges between civil society and government (as in the case of Thailand) government representatives can serve on governing bodies.
- Reasonable overhead rates need to be determined in order to ensure that a professional but lean operation is maintained and ODA funds used in a cost-effective manner.

**Lesson: Periodic participatory program evaluations permit the adjustment of priorities, goals, and objectives.**

Initial program priorities were determined in consultation with NGO partners and other stakeholders such as the government. The programs established clear goals and targets related to the volume of grants or loans to be disbursed and the expected impact on the reduction of poverty.

Both cases incorporated periodic program reviews involving all stakeholders; sometimes they involved external evaluation teams. These strategic reviews proved invaluable in guiding the programs towards greater programmatic focus and ensuring the input of participant NGOs. It also meant that it was possible to incorporate changing concerns in ODA policy at the headquarters or the country level. In the case of the Philippines, the program incorporated new regional priorities such as conflict-torn Mindanao.

**Lesson: These reviews provide guidance to ODA agencies interested in phasing out funding while ensuring that the critical work of supporting civil society in the fight against poverty continues.**

In the case of Thailand, the review after the first phase of the program helped to clarify the need for a permanent funding mechanism to ensure that work could continue beyond the current funding cycle. In the Philippines, it led to the proposal for PDAP to create a Central Loan Fund to provide micro loans. This organization was eventually spun off as a new permanent organization, the Federation of People's Sustainable Development Cooperative, and has proven to be a very effective institution in leveraging additional resources.

In both cases, learning from experience led to increasing emphasis being placed on providing support for NGO capacity building. In the Philippines, this led to the creation of a Technical Support Group to train grantee-NGOs in organic agricultural practices. In Thailand, LDI provided increasing support for capacity building through the development of partnerships with existing specialized training institutes.

**Lesson: The organizations created with ODA funds play a critical role in building partnerships between civil society and government, and enable citizens to influence public policy.**

In Thailand, LDI has given increasing emphasis to research on the impact of public policy on the poor and the design of new policies to support initiatives of the poor. This work has enabled the program to build on the experience learnt through the small grants activity and significantly increases its impact on poverty at the national level. Its support for thematic

NGO networks has helped to articulate and clarify the need for national policy changes. Thus, we find that CIDA's investment in building the capacity of LDI and supporting its policy research and convening agenda has produced handsome dividends.

In the Philippines, the encouragement of partnerships between PDAP and the Departments of Agriculture and Agrarian Reform meant that a number of the innovations developed at the micro-level and through NGO training programs were scaled up. For example, the Department of Agriculture took the sustainable agriculture strategy, tested by PDAP, and adopted it on the national level.

**Lesson: Support for the creation of a permanent organization produces long-term impact on a number of levels.**

The creation of a permanent national funding mechanism (in the case of Thailand with active committees at the regional level) constitutes a permanent institutional resource for the efficient transfer of funds and expertise to the community level. With the financial support of CIDA, the two organizations in question, LDI and PDAP, have been able to achieve a transition to permanent legal organizations. They have developed expertise in grantmaking and lending at the community level, in policy research and the convening of interested parties to influence policy, and in the building of bridges between civil society and government. Evidence of this is their continuing ability to leverage funds from government departments and other bilateral donors that are looking for trusted and tried intermediaries.

## Case Studies of Policy Option 3

8 This summary is derived from a case study on the Foundation for Philippine Environment, written by Antonio Quizon.

### Case 3A: The Foundation for the Philippine Environment<sup>8</sup>

#### Background

The socio-political situation in the Philippines following Corazon Aquino's rise to power in 1986 provided an excellent enabling environment for ODA involvement with the NGO sector. At that time, USAID provided resources to endow a new organization dedicated to supporting sustainable development. This was the birth of the Foundation for the Philippine Environment (FPE).

At this time, USAID Manila staff was open to discussing a range of options for managing funds assigned to the Philippines under a global Natural Resource Management

Program. The Philippine Development Forum, a Washington-based organization of US NGOs, assisted by Green Forum, an environmental NGO in the Philippines, lobbied the US Congress for ODA to be allocated directly to Philippine NGOs for environmental protection activities. The Aquino administration was open to this arrangement thereby opening the door for negotiations with USAID.

Of critical importance was the presence of senior officials in the Philippine Department of Energy and Natural Resources and USAID Manila Office committed to creating a permanent funding mechanism for environmental programs that would be free from political interference and that would draw on existing talents in the NGO sector. Together, they devised a strategy whereby USAID grant money was to be used to purchase Philippine debt in the secondary market, to be redeemed at favorable rates at the Central Bank of the Philippines. The resulting capital was to be managed by a private Philippine foundation. Until the foundation was created, the fund was entrusted to a US-based NGO – the World Wildlife Fund – which was selected because of its long presence in the Philippines, experience in working with NGOs, strong track record, and influence in Washington. Senior officials of the agencies hired a well-respected Philippine NGO to facilitate the creation of the new foundation and to create the necessary administrative and grantmaking systems. Once a professional staff was in place and an active board elected, USAID staff transferred funds to the new foundation.

## **Impact**

### *Endowment Management*

FPE staff and board have sought to increase the value of the endowment while maintaining low risk. After two years in which the endowment was invested solely in Central Bank treasury bills with low returns, the board decided to invest 20 percent of the endowment in equities. This improved earnings. In 1996 the board recommended taking the entire endowment out of the Central Bank and investing it in higher-yielding instruments. USAID agreed to turn over the management of the endowment to three local fund managers and an offshore bank, provided there were strict guidelines to reduce risk. In preparing the guidelines, the foundation was careful to avoid conflict of interest. The Trust Agreement between FPE and fund managers forbade investment in securities of a company owned or managed by an FPE board member or officer or his/her relative unless FPE was informed in advance.

In early 1997, just before the Asian currency crisis, the board decided to invest half of the endowment in Swiss bonds earning 14 percent interest. A general policy of the board investment committee to keep investments, “conservative, diversified and multi-currency,” in the words of former chairperson Fr. Lucas, helped prevent a precipitous decline in the endowment’s earnings during the crisis. Not all investments are thoroughly screened, however, to ensure investments are socially and environmentally sound.

As of 2002, foundation officials have not yet secured new endowment contributions, but they have been able to increase the size of their grant portfolio by co-financing projects with

other donors, including the Ford and MacArthur Foundations in the US and the Nature Conservation Fund of Keidanren (Japan Federation of Economic Organizations) in Japan. They also signed memoranda of understanding with FSSI, the Global Environment Facility's Small Grants Program, CIDA, NGOs for Integrated Protected Areas, Inc., and the Asian Institute of Management for joint investments in specific sites. As the foundation establishes a record in sound financial management and effective grantmaking, more opportunities for co-financing are expected.

#### *Impact of Grant Program*

One of the usual concerns of an environmental trust is how to strike a balance between its defined priorities and responsiveness to NGO proposals. FPE has countered this by designating four different types of grants – site-focus, proactive, responsive, and action grants. Currently, about 80 percent of FPE's annual volume of grants (representing the combined amounts of site-focus and proactive grants) is allocated for projects developed or sought out by FPE, rather than based on proposals it receives. Since its inception, FPE has taken a clear stance in support of site-focused interventions, founded on a community-based natural resources management approach. FPE sees its role as complementary to that of the government's in designated protected areas.

Looking back, board and staff members have acknowledged that FPE's main concern in its early years was to move funds, eager to establish a track record. They also mention that FPE had mainly emphasized its role as grantmaker, which overshadowed its other roles as catalyst for cooperation and fund-facilitator. Feedback from FPE's site-focused projects and project partners has yielded valuable insights, however, for reshaping FPE's future operations and assistance approach.

#### *Building the Capacity of Community Organizations*

By running training courses for local NGO staff and providing one-on-one technical assistance to local NGOs and community organizations, FPE has recognized the capacity of local organizations to implement and manage biodiversity conservation and sustainable development programs in their own communities. In the words of Fr. Lucas, "We are working to ensure that communities with which the foundation partners will be able to run the programs and projects sustainably, even after FPE has pulled out. We fund [the communities], empower them, and then we withdraw and watch the communities bloom."

#### *Supporting the Efforts of Partner Grantees in Environmental Advocacy*

While FPE has made a conscious decision not to play a direct advocacy role, it makes grants to organizations engaged in policy advocacy work. For example, it has given grants to organizations engaged in environmental legal defense.

<sup>9</sup> This summary is derived from the case study on the Foundation for a Sustainable Society, Inc., written by Alan Alegre.

## Case 3B: The Foundation for a Sustainable Society, Inc. of the Philippines<sup>9</sup>

### Background

The experience of the Philippine NGO community in engaging in collaborative efforts with ODA agencies proved valuable when it came to negotiating a debt swap between the Swiss and Philippine governments in order to establish FSSI.

In Switzerland, the Swiss Coalition of Development Organizations, which is a very active group of development NGOs with a long history of solidarity and funding relationships with Philippine NGOs, initiated a campaign for debt relief. It organized a petition, signed by 250,000 citizens, requesting a program of creative debt relief.

In response, the Swiss parliament approved a bill establishing the Swiss Debt Reduction Facility. The success can be attributed to the strong unity of the NGO sector, the high level of informed political discussion among the population, and the strength of the Swiss economy. The bill gave responsibility for implementation to the Swiss Federal Office of Foreign Economic Affairs (FOFEA) and the Swiss Agency for Development and Cooperation (SDC). NGOs were given representation in an extra-parliamentary consultative commission to advise the government on implementation issues. Importantly, the Swiss Coalition was formally commissioned by the government to address and operationalize the “creative” dimension of the debt relief initiative including the detailed preparation of the pre-negotiation phase.

The coalition formed a Debt for Development Unit (DDU) to assess experiences on previous debt swaps and counterpart funds; conduct fact-finding missions to identify partners, programs, and projects; and serve as partners in preparing, monitoring, and evaluating programs.

### *Establishing Cooperation*

The process leading to the creation of the organization was essentially driven by NGOs in both countries. SDC pushed its government to accept the Philippines in the debt swap program and then selected CODE-NGO (Caucus of Development NGO Networks) in the Philippines as its partner to move the initiative forward.

CODE-NGO was commissioned to do the background research necessary for negotiating the debt swap and creating a counterpart fund. CODE-NGO requested Eugene Gonzales undertake this work given his experience in development finance, high credibility with Philippine NGOs, and previous involvement with two other ODA funded mechanisms, including FPE.

Following background research into the Philippine debt policy and other NGO-managed funding mechanisms, CODE-NGO convened a series of consultations with major civil society and NGO networks and coalitions. These consultations produced a set of recommendations useful in informing the negotiation process. These included:

- that the fund be in the form of an endowment, with interest on the income to be used to fund multi-year projects via grants and loans

- suggested criteria for project selection (e.g. environmentally sound, economically strategic and viable, gender-based)
- that the fund have proactive and responsive elements and some initial funding policies
- that a Program Committee be formed to define the scope, criteria, and structure for fund management in more detail.

Building on these consultations, a DDU delegation visited the Philippines and prepared its own recommendations, including confirming the readiness of the debtor government to provide local currency for debt relief and the expected size of the fund.

To maintain momentum, CODE-NGO was given a new consultancy to build on the earlier consultations and prepare more detailed proposals for the proposed funding mechanism. A working group was created that decided to form a program committee to manage the initiative during a transition period. After initially discussing the possibility of an existing organization, FPE, being the legal holder of the fund, the group decided to create an entirely new organization. The proposals of the program committee became the basis for talks with the Swiss Government.

#### *Government-NGO Negotiations*

The DDU presented its proposal on the funding mechanism to the Swiss Federal Economic Office of Foreign Affairs, which had been appointed the lead agency for the Swiss Government in negotiations (SDC did not have a program in the Philippines). The DDU persuaded FOFEA that the proposed mechanism would meet both financial and development goals, and the DDU endorsed the proposal with only minor modifications.

The negotiations in the Philippines were more protracted. The government had reservations to handing over the proceeds from debt forgiveness to a civil society-managed foundation. Some of the officials in the Department of Finance would have preferred to see these funds channeled directly to a government department as had been the case with recent French and German debt swaps. The Philippine NGOs eventually won the government over to their proposals. This prepared the ground for brief formal negotiations and a final agreement.

Formal bilateral negotiations agreed that the Philippine government would have an ex-officio non-voting seat while the Swiss government would have observer status. The Philippine Government also requested that the endowment income be used for economic activities and not for advocacy activities. The government officials signed the agreement in August 1995 and legally incorporated FSSI in September of that year. After a short build-up phase, it commenced operations in April 1996.

#### **Impact**

Particularly innovative features of this organization include the following:

- It invests in sustainable production activities that provide social and economic benefits for poor urban and rural communities.

- It is primarily a lending institution. This enables FSSI to provide support to more organizations than if only grants were used. In the first four years of operation, FSSI supported 65 organizations. The foundation staff takes great care to identify viable projects and ensure they have the necessary financial and technical assistance to be successful.
- FSSI has realized the need to be more proactive, both in identifying viable industries and sectors and then in selecting partners. In the words of the former Executive Director:

[Many] thought that [FSSI] would just passively be involved in financing. But we have gone into joint ventures – a major unanticipated consequence – and we are now offering very specific services apart from financing. Enterprise development services have to be provided – technology, markets...We have to tap outside resources, experienced individuals, and link them with our project proponents.

- FSSI identifies specific sectors and industries that offer significant prospects for community enterprises. It is then actively involved in working with a strategic partner to prepare a business plan and identify business partners.
- Less than five percent of its “payout” is in the form of grants for activities such as technical assistance, feasibility studies, and market research that complement the loan facility. In the first four years of operation, 155 small grants were made.
- By providing a combination of loans and small grants, FSSI ensures that organizations are efficient in their use of resources. The emphasis on institutional development and linking partners to technical assistance and information has led to the development of sustainable organizations.
- FSSI primarily adopts a proactive strategy whereby it identifies potential eco-enterprises in four major ecosystems. These are enterprises that are ecologically sound, financially viable, and community-rooted.
- FSSI identifies other organizations and entrepreneurs who can provide technical assistance to community enterprises in areas such as marketing. This reduces overhead costs and makes full use of existing resources.
- FSSI aims to keep its operating expenses at less than 15 percent of total income.
- FSSI has created a number of policies to ensure the careful and prudent investment of its endowment. These policies include: a bidding system to select the fund manager, a list of companies in which it will not invest, and, most interestingly, a development portfolio of investments in local development financial institutions which are often supporting the very individuals and small enterprises that FSSI itself wants to see become successful.
- FSSI has an active board consisting of a wide range of leaders from the NGO sector with links to the private sector and the cooperative movement. It exercises close monitoring to ensure that financial targets are reached.

- FSSI has shown a capacity to engage in strategic thinking in order to adapt the organization to the demands of the external environment. The organization's emphasis on research and documentation has contributed to the development of this strategic planning.
- FSSI has developed strong systems of monitoring and evaluation to ensure that recipients of funds are accountable. These include quarterly reports, staff monitoring visits, and annual external audits of each project.

#### Lessons Learned from the USAID and SDC Experience with FPE and FSSI

**Lesson: A prerequisite to considering this option is that the debtor and creditor countries are open to the possibility of debt swaps that benefit of civil society.**

In the case of the Philippine, US, and Swiss governments, all saw this option as being in their own interests. The policy environment in Washington was supportive of the initiative, in part because of successful lobbying by US NGOs. The US Congress endorsed the idea and USAID staff in Manila was looking for highly visible actions to demonstrate the clear commitment of their government to the Philippines.

The Philippine government at the time had recently returned to the fold of democratic regimes and was interested in working with NGOs. Former NGO leaders who had moved into government positions were keen to support civil society organizations by creating an organization independent of government that could represent the public interest.

The Swiss NGO community had persuaded the Swiss government that a debt swap initiative in a number of countries would be a popular gesture, especially because it would coincide with commemorations of the country's 600th anniversary of independence.

**Lesson: It is an advantage to have active NGO involvement on both sides of the negotiations to lobby their respective governments to support a debt swap and to hand over the management of the resulting funds to a private organization.**

In the United States and Switzerland, NGO coalitions were very interested in mobilizing additional resources for Philippine civil society organizations. Public support played an important role in ensuring a positive outcome to the negotiations. They had able counterparts in the strong Philippine NGO community too. In the case of the Swiss negotiations, DDU's counterpart was CODE-NGO, a strong consortium of Philippine NGO networks that could draw on the previous experience of the creation of FPE. Together they spearheaded all the preparatory work for the official negotiations, including the drafting of a final proposal. This involved preparatory consultations and the organization of a working group and program committee to refine the recommendations for government consideration.

In the case of the DDU, their lobbying was so successful that the Swiss government contracted them to conduct all the bilateral discussions and prepare a proposal for its consideration. The heavy involvement by networks representing the two NGO communities

*Where open, the debt swap window may be an effective means for foreign governments to participate in financing development in Southeast Asia*

meant that the recommendations they made for the structure, aims, and objectives of the new organization were widely endorsed and proved workable.

**Lesson: Key committed individuals in the respective government and NGO sectors can play a critical role in ensuring successful negotiations.**

In the case of FPE, senior officials in both USAID and the Philippine Department of Environment and Natural Resources were committed to creating a permanent funding mechanism for environmental programs that would be free from political interference and draw on the skills and experience of environment and development NGOs. Highly respected and experienced civil society leaders facilitated the negotiations.

In the case of negotiations between the Swiss and Philippine governments, the Swiss were fortunate to have Alfred Gugler as head of the DDU. He was committed to the process and had the trust of CODE-NGO.

**Lesson: It is helpful to have a planning grant in order to ensure the serious involvement of civil society representatives in the design of the organization that will be the beneficiary of the debt swap.**

Given the existence of an active and articulate NGO sector in the Philippines, it was important to include them in the process of designing the foundations' vision, mission, and program guidelines.

In the case of FSSI, the DDU, with SDC funds, was able to hire in-country consultants to conduct consultations with the Philippine NGO sector; research the debt conversion policies, procedures, and previous experiences; and prepare the articles and by-laws of the new organization. This preparatory work proved essential in enabling it to start activities almost immediately after the two-year negotiations were completed.

In addition, Helvetas (a Swiss NGO) and PBSP, a local grantmaking organization supported by the corporate sector, advanced funds to cover administrative expenses and meetings of the prospective board in order to advance the process and ensure that the basic systems would be in place by the time formal negotiations were concluded.

**Lesson: Experienced civil society leaders need to assist in training the staff and board of the new organization and put in place administrative, accounting, and grant management systems.**

In the case of FPE, USAID contracted with PBSP to provide all the necessary institutional development support in the start-up phase. FSSI had the advantage of having as its first Executive Director, Eugene Gonzales, who was closely involved in the start-up of FPE and was able to draw on that experience. He had the full support of CODE-NGO that had also been involved in creating the system of governance and by-laws for FPE.

**Lesson: During the negotiation phase, it is important to reach consensus on the program priorities of the new organization, criteria for fund disbursements, and broad institutional policies such as overhead costs.**

This negotiation stage provides the ODA agency with the opportunity to shape the agenda of the new organization. Once the funds are formally transferred, the donor has little further

direct influence. Critical issues to be resolved are: the balance between proactive and responsive grantmaking, balance between loans and grants, size of grants and loans, length of grant period, and guidelines regarding overhead in order to ensure that the organization does not spend too much in this area.

**Lesson: It is critically important to put in place clear guidelines for the management of the endowment before the funds are entrusted to the new organization.**

A major concern of both donor and host governments is the prudent management of resources under a wise and active board. It requires effective oversight from a board committee whose members have considerable prior experience in asset management.

In both cases, it has proven effective to entrust the funds to a number of the best fund managers available in the country under a competitive process. These fund managers are then given clear guidelines on portfolio management and their performance is closely monitored.

Ideally, organizations concerned with environmental protection and poverty alleviation should ensure that investments are with companies that are environmentally and socially responsible. FSSI attempts to do this by issuing fund managers with a “blacklist,” but the necessary information on which to make sound judgments can sometimes be difficult to obtain.

One option worth considering is to entrust part of the portfolio to the organizations’ own professional staff to invest in viable community enterprises. This has been attempted by FSSI with some success; this strategy has increased the value of its portfolio by producing positive returns and at the same time contributed to achieving its social mission.

## Conclusions Drawn from the Cases

### Option 1 – Creation of a Small Grants Program Managed by the ODA agency

These cases demonstrate that ODA-managed small grants programs can play a useful complementary role to other aid programs that concentrate on effecting change at other levels, such as policy. Grant programs that provide support for capacity building of staff of

NGOs and funds for organizational development, in addition to infrastructure development, will contribute to building social capital and producing lasting change. Programs that have a clear focus, are managed by development specialists, and draw on local expertise in project selection and evaluation are most likely to have the greatest impact.

An effective means to accomplish this is in supporting the exchange of experiences between grantees in specific thematic areas, which can disseminate successful strategies for attacking poverty at the community level. Through the small grants program, agencies can encourage partnerships and cooperation between NGOs and local government units.

## **Option 2 – Creation of an NGO-managed Funding Mechanism**

CIDA's parallel experience in Thailand and the Philippines from the mid-1980s to the present provides useful insights into the option of channeling ODA funds to local development through an NGO-managed intermediary and assisting this organization in becoming an independent funding organization. As CIDA was legally unable to provide endowment grants to organizations, it was forced to develop creative ways of providing start-up funds to each organization to set them on the pathway to independence. Fortunately, key CIDA staff involved in both these initiatives has understood the need for flexibility. The lack of a permanent endowment fund has obliged each organization to seek funds from a variety of sources in order to continue to impact on problems of poverty in their respective societies. Both have been successful in doing so thanks in large part to the track record they have been able to build up with CIDA funds. As a result, LDI in Thailand and PDAP in the Philippines are continuing to mobilize and deliver financial resources and other services to a range of NGOs fifteen years after the initial receipt of ODA funds.

While this option does require a significant investment of resources over a long period (15 years in the case of LDI and PDAP) and a commitment to the development of a strong local civil society organization, this option provides an ODA agency with a cost-effective and efficient way of supporting a number of complementary programs at different levels from the micro to the macro. If the right kind of intermediary is created and resources put into building a strong board and professional staff, it can manage a small but strong grants program, thus freeing the ODA agency of the labor-intensive process of reviewing proposals. It can also manage a capacity building program for NGOs, build bridges between sectors, and convene sectors to develop new national policies. The impact of these combined programs can outlive the funding cycle of the program and contribute to the creation of social and human capital in the country.

### Option 3 – Creation of an Independent Endowed Organization

The experience of USAID and the Swiss Government in the two cases provide insights into the benefits of creating endowed organizations to help achieve some of the objectives of their bilateral aid programs. It also sheds light on the conditions that need to be satisfied to produce a successful debt swap agreement and the challenges posed in the negotiation process. Both FSSI and FPE have been successful in developing grantmaking and lending programs that are having an impact on peoples' lives in poor communities. Equally importantly, they have both succeeded in increasing the value of their endowments despite the financial crisis in the late 1990s. All three governments can demonstrate, at least on the evidence available to date, that their trust in transferring significant resources to private organizations controlled principally by civil society leaders has been justified.

This approach clearly carries risk for the ODA agency as it is entrusting the control of sizable resources to a new organization with no track record. The Philippines had the advantage of having a strong NGO sector led by CODE-NGO and its experienced Executive Director prepared to invest time and human resources into developing a strong system of governance for both organizations that guaranteed accountability and effective leadership. High priority was given to creating safe and prudent financial instruments for fund management. Indeed, time has shown that FPE and FSSI have been competently managed, applying clear standards of performance, transparency, and accountability to their work. What's more, assistance has reached groups and communities that have not traditionally had access to credit and other funds.

*More ODA agencies should explore the possibility of creating financially sustainable organizations able to continue implementing their mandate in perpetuity.*

Both USAID and SDC have undoubtedly received a good return on their investment. It can be considered a win-win situation for both the creditor and debtor countries. The viability of this option, however, depends to some extent on the value of debt papers. When the debt swap to create FSSI was negotiated, the debt papers were at 50 percent of the value of the debt. By allowing both organizations to experiment with the use of loans, loan guarantees, and partnerships with other financial intermediaries, in addition to the provision of grants, the ODA agencies ensured that benefits from their endowment grants were multiplied.

This is clearly the policy option that is going to produce the most lasting impact by the sustainability it promotes. The model could be adapted to enable ODA funds resulting from debt swaps or debt forgiveness agreements to support the creation of local organizations. They could also support community foundations that could potentially leverage more resources from the private sector and local government.

The author recommends that all ODA agencies explore the possibility of creating financially sustainable organizations able to continue implementing their mandate in perpetuity. In most countries, the problems that governments are seeking to address are increasing, as are the demands for their services. Many of them are unable to effectively manage the ODA funds committed. With professional staff in place and guaranteed resources which they can

use to leverage other funds, independent organizations are able to focus on developing innovative solutions to those problems and on building social capital.

This option of endowing local organizations is attractive to ODA agencies wishing to support lasting change through strengthening civil society. These case studies show that the organizations created are having an impact beyond the simple transfer of funds to civil society organizations. They play critical roles in building strategic alliances between sectors, strengthening civil society's institutional and financial capacity, and influencing government policy.

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Prior to joining Synergos in 1993, he was a mid-career Fellow at St. Antony's College, at Oxford University, conducting research on the role of non-governmental organizations in Mexico. Dr. Winder worked with the Ford Foundation for over a decade, as the Ford Foundation Representative for Mexico and Central America and subsequently Southeast Asia (1987-1992). In these positions he expanded the size and scope of the Foundation's programs developing new areas of work in human rights, civil society strengthening, international affairs and rural and urban poverty.

Dr. Winder has been affiliated with numerous NGOs, boards of directors and committees, including: WINGS, IMAG, Global Kids, Oxfam UK and St. Antony's College North American Trust. His extensive list of publications includes research on community development, the role of foundations, local philanthropy and NGOs and a sourcebook on foundation-building, edited and co-authored with other Synergos staff.

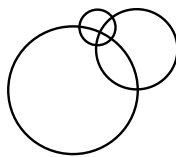
Dr. Winder holds a PhD and a Masters in Education in community development from the University of Manchester, UK.

## About Synergos

The Synergos Institute is an independent New York-based nonprofit organization founded in 1986 to develop effective, sustainable and locally-rooted solutions to poverty. Synergos and its partners mobilize resources and bridge social and economic divides to reduce poverty and increase equity around the world.

Our goals are to:

- strengthen the capacities of grantmaking institutions in Africa, Asia and Latin America to mobilize resources and build collaboration to reduce poverty and increase equity in their countries
- strengthen the capacities of leading philanthropists from around the world to deepen the effectiveness of their social investments and to forge partnerships to leverage their impact
- build effective collaboration and partnerships across social, economic and institutional divides by advancing the development and application of collaborative leadership and bridging dialogue processes.



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