

The Synergos Institute
Voluntary Sector Financing Program
Case Studies of Foundation-Building
in Africa, Asia and Latin America

The Esquel Ecuador Foundation

(Fundación Esquel-Ecuador)

Alejandra Adoum with Anglea Venza

1997

The preparation of this series of case studies was made possible by support from the Ford Foundation, the Aspen Institute, the C.S. Mott Foundation and the Compton Foundation.

No part of this publication may be reproduced or transmitted in any form or by any means without the permission of The Synergos Institute.

Voluntary Sector Financing Program

Case Studies:

- The Foundation for the Philippine Environment
- The Esquel Ecuador Foundation (Fundación Esquel-Ecuador)
- Child Relief and You - CRY (India)
- Foundation for Higher Education (Colombia) (Fundación para la Educación Superior - FES)
- Philippine Business for Social Progress
- The Puerto Rico Community Foundation
- The Mexican Foundation for Rural Development
- The Kagiso Trust (South Africa)

Cross-Case Analyses:

- Formation and Governance
- Organizational Financing and Resource Generation
- Program Priorities and Operations

Contents

Synopsis	1	Conclusion	40
Preface	3	Sources	42
Genesis and Origins	6	Addendum - FEE Today	43
Development of Grupo-Esquel: The Birth of an Idea	6	Tables	
Creation of a Plan and Start-up Funding	8	1: FEE Supported Projects, 1992-1994 by Program Area	20
The Feasibility Study	9	2: FEE Current Project Support, 1995 by Program Area	22
Carrying out the Plans	10	3: FEE Supported Projects, 1992-1994 by Targeted Sectors	21
Governance	12	4: FEE Current Project Support, 1995 by Targeted Sectors	22
Developing the Mission and Vision	12	5: Funds Received by Year, 1990-1994	32
Validation Process	13	6: Operating Budget, 1990-1994	33
Organizational Structure	13	7: Endowment Fund Structure	37
Operational Staff	16	Annexes	
Community Input into FEE		1: Organizational Chart	45
Decision-making	17	2: Founder members	46
Program Operation and Evolution	18	3: FEE's Social Development Program	47
Grantmaking	18		
Consensus Building on New Development Alternatives	27		
Fostering Local Philanthropy and Solidarity	28		
<i>Proceso</i> : Program of Community Economic and Social Development	28		
Children and Youth: the IYF Partnership	29		
Communications and Outreach	30		
Financing FEE	31		
Start-up Funding	31		
Funding Sources in the First Years	31		
Fundraising Strategies	34		
Financial Management	38		
Auditing and Financial Control Procedures	39		

Glossary of Acronyms

ACJ	Christian Youth Association
EGF	Esquel Group Foundation
FEE	Fundación Esquel-Ecuador
IDB	Inter-American Development Bank
IYF	International Youth Foundation
NGO	Nongovernmental organization
OAS	Organization of American States
PROCESO	Program of Community Economic and Social Development
UNDP	United Nations Development Programme

Synopsis

Origins

Fundación Esquel-Ecuador (FEE) was created as a member of the Grupo Esquel (conceived in 1978), a network of independent, Latin American, nonprofit social development organizations in Chile, Argentina, Uruguay, Brazil, Peru.

In the late 1980s, with the collaboration of Synergos, FEE sought to establish itself as a grantmaking organization with a permanent endowment to guarantee its autonomy. The plans matched with the Rockefeller Foundation's criteria for funding an authentically local, foundation-like organization with a philosophy of development and social change, and an interest in engaging local wealth. With initial funding from the Rockefeller Foundation (RF), and the International Youth Foundation (IYF) (with which it shares an ongoing partnership), FEE commenced operations in 1991.

Finance

FEE has come to rely on four basic funding sources: international donors, debt swap, local donors, and endowment income. The RF and the IYF were the major contributors to FEE's endowment in the first four years, although lesser amounts were also received from other US and European donors. Of the RF grants about \$1 million was used to complete a debt swap transaction which generated \$2.5 million to be used exclusively for social development programs. In 1995 FEE received a grant of \$2.5 million from the IDB to begin a major small-scale credit program (*Proceso*), for which FEE has committed to raise an addi-

tional \$1 million.

Local funding has been harder to obtain, such that in 1993 FEE began taking on contracts to earn fees for research and project evaluation services. The failure of several local fundraising campaigns to reach expectations prompted

FEE to carry out a three-year program which aims to stimulate philanthropy in Ecuador. Similarly, FEE's original goals for its endowment have been difficult to reach. The organization's current endowment of almost US\$900,000

does not generate enough revenue to cover the core costs of the Foundation's operations.

Governance

The Foundation's governing bodies are the General Assembly (consisting of the FEE founders and former board directors), the Advisory Council, the Board of Directors (thirteen members for three year terms) and the Executive Committee. While these entities enjoy broad policy defining and approval powers, new initiatives and institutional direction derive primarily from the professional staff.

Programs

FEE's three main program areas are grant-making, building national consensus, and fostering a culture of philanthropy and solidarity with disempowered populations. The new IDB project (*Proceso*) adds a fourth strategy of providing credit and investment capital for community enterprises. Grants are given to projects in defined priority areas focusing primarily on youth, children, women and indigenous populations. Project initiatives come from the beneficiaries who are encouraged to

participate at all stages of the implementation to maximize the potential for learning and continuity.

To foster consensus building on new development initiatives, FEE conducts social development research, and organizes debates, colloquia, and meetings for the exchange of information. The program to study and encourage philanthropic participation and the Proceso program both have the potential to raise revenues for FEE's endowment and simultaneously promote the Foundation's social transformation goals.

Preface

Background

In Africa, Asia and Latin America, citizen participation through a range of civil society organizations has become a growing and vital force. Civil society organizations have brought significant material and human resources from the community level to bear on poverty problems through donations of time, energy, materials and money.

Locally managed and controlled organizations that provide direct financial support to other organizations within their societies have been established over the last decade in many southern countries. A few were established twenty or thirty years ago. These organizations are injecting critical financial as well as technical resources into local civil society and mobilizing resources from a wide variety of sources both domestic and international for this purpose.

Few of them were created with a single large endowment, as was the case with most northern private foundations. Most of them rely on a wide range of strategies to mobilize financial resources including earned income contributions from individuals and corporations and grants from international organizations. Some managed donor-designated or donor-advised funds following the US community foundation experience.

General consensus over terminology has yet been reached; these new types of organizations are usually referred to as “foundations” or “foundation-like organizations.” Though many of these organizations have adopted legal identities as foundations or trusts, others are registered as nongovernmental organizations.

In

general, they differ in many ways from their northern counterparts. For example, they are more likely to mix program operation with grantmaking. Many of them act as convenors of civil society groups, as bridging institutions to other sectors of society or as technical assistance and training providers.

To distinguish this type of southern foundation-like organization from northern foundations we can use a term such as “community development foundation” or “southern foundation” or use a new term. One new term which has been proposed is “civil society resource organization” or CSRO. This term refers to organizations which combine financial assistance to community-based organizations and NGOs with other forms of support for organizations or the civil society sector as a whole. In this series of papers we will use the terms “foundation” and “civil society resource organization” interchangeably.

This expanding universe of foundations/civil society resource organizations around the world has not been systematically studied. As one of the first steps towards developing an understanding of this sector, Synergos responded to a request from a group of southern foundations. In April 1993, a group of foundations from a dozen southern countries met with northern foundations and official foreign aid agencies to discuss the emerging role of foundations in strengthening civil society in Africa, Asia and Latin America. A major outcome of the discussion was a decision to learn more about how these organizations are created, how they develop and evolve, and how they sustain themselves as philanthropic entities. The group decided on case studies and analysis as the most fruitful approach. The Synergos Institute, which works with local partners to establish and strengthen founda-

tions and other financing organizations, accepted the task of producing case studies of these organizations. These papers are one of the products resulting from this effort.

Methodology

A Global Advisory Committee of southern foundations guided the two-year effort by Synergos. The advisors selected eight geographically diverse cases from over sixty organizations identified through an initial survey. Local researchers were retained in each country and the Synergos research team worked with them and the Advisory Committee to develop a common protocol.

The protocol hypothesized four areas as key to the operational effectiveness and sustainability of southern foundations: origins and genesis of the institution; institutional governance; program evolution and management; and financing.

The case researchers studied these issues via multiple data collection methods and sources. The primary method was to conduct direct structured interviews with individuals involved with each case organization, including board members or trustees, the managing director, staff members, grant recipients, and other relevant organizations. In addition to interviews, researchers gathered mission and vision statements, annual reports, operating strategies and plans, internal and external evaluations, financial plans and administrative procedure manuals. Data collected by the different methods were systematically organized into distinct databases which were the basis for each written case study. The case studies were coordinated by the Synergos research team, which then provided the funding to a cross-case analysis team for the preparation of three analytical papers. The two teams prepared condensed versions of the case studies for publication.

Use of the Studies

The eight case studies bring to light key factors that have led these organizations to be successful, and the studies document the crucial processes they have gone through to respond effectively to the needs of their national civil societies. Across the very different conditions that brought about their formation, the cases reveal that foundations/CSROs can play a central and strategic role in strengthening civil society. Their comparative advantage as resource mobilizers enables them to have a large effect both in stimulating new financing and connecting financial resources to the community-level where they can have the greatest impact. In particular, they have excelled at:

- providing seed resources for the growth of civil society organizations in their countries;
- leveraging diverse sources of financing for the projects and programs of civil society organizations;
- assisting northern foreign aid to be channeled to civil society in more sustainable and effective ways; and
- acting as an interface for public policy dialogue between civil society and the government and business sectors.

The case studies and the related analytical papers are a useful tool for those who wish to build foundations/CSROs around the world. Synergos hopes they will be widely used as a catalyst for the development and strengthening of this important group of institutions that provide financing to the voluntary sector.

Acknowledgements

The case study project has involved the talent

and contributions of many individuals and organizations over the last two years. We would like to acknowledge their efforts and emphasize that the project would not have been possible to complete without their contributions:

- The Global Advisory Committee: Graça Machel, Foundation for Community Development, Mozambique; Cornelio Marchán, Esquel Ecuador Foundation; Ethel Rios de Betancourt, Puerto Rico Community Foundation; Kamla Chowdhry, Center for Science and Environment, India; Aurora Tolentino, Philippine Business for Social Progress; Paula Antezana, Arias Foundation, Costa Rica; Maria Holzer, Polish Children and Youth Foundation; Eric Molobi, The Kagiso Trust, South Africa.
- The case writers: Teresita C. del Rosario, Alejandra Adoum with Angela Venza, Anthony D'Souza, Alfredo Ocampo Zamorano with Margee Ensign and W. Bertrand, Victor E. Tan and Maurino P. Bolante, Maria del C. Arteta and William Lockwood-Benet, Victor M. Ramos Cortes and Lauren Blythe Schütte.
- The case studies research team: Betsy Biemann, S. Bruce Schearer, John Tomlinson, David Winder and Eliana Vera at The Synergos Institute and Catherine Overholt at the Collaborative for Development Action.
- The cross-case analysis team: Darcy Ashman, L. David Brown and Elizabeth Zwick at the Institute for Development Research.

Financial support for the project was provided by the Aspen Institute, the Compton Foundation, The Ford Foundation, The W.K. Kellogg

Foundation and the Charles Stewart Mott Foundation.

In addition, a number of individuals made very important contributions to various aspects of the research: Kathleen McCarthy at the Center for Philanthropy, City University of New York, and James Austin at Harvard University provided valuable research advice; staff and board members of the case organizations gave time, interviews and key background materials;

Yvette Santiago, Miriam Gerace Guarena, Amelia Moncayo and Armin Sethna assisted in the coordination and production of the study documents.

Genesis and Origins

The Fundación Esquel-Ecuador (FEE) is a private, nongovernmental organization that aims to work as an agent of social change, supporting initiatives among the most disadvantaged segments of Ecuadorean society to solve their own problems, change conditions that restrict their development and address social injustice.

While the Foundation was not legally established until 1990, its roots go back nearly fifteen years to the era of political ferment that prevailed in much of Latin America in the 1970s and 1980s. Those years were characterized by the proliferation of military dictatorships and an explosion of economic, social and political crises whose effects are still being felt today. At the time, Ecuador's relatively "progressive" dictatorship provided refuge for Latin Americans being persecuted in their own countries. In 1978, a group of social and economic development professionals living in Quito formed a task force to conduct research, debate issues and share experiences. Among those involved were Ecuadorean Cornelio Marchán (FEE executive president) and Argentinean Roberto Mizrahi, then working for the Organization of American States (OAS).

Development of Grupo-Esquel: The Birth of an Idea

"We had an encounter with Utopia, with the Utopia found in Bolívar's dream," says Chilean Santiago Quevedo, who later became one of the founders of FEE. "There was a meeting of minds, a coming together, human affinities, technical and political affinities that went beyond party lines..."

Later, after the exiles returned home and dis-

persed to other cities including Washington, DC, they continued to feel strongly that countries in Latin America were affected by similar problems and that it was important to search for solutions from a perspective of regional unity. Thus, they set up a network called *Grupo Esquel*, so named after the small Argentine city that lies at the southern tip of the continent, to symbolize an initiative arising from the South. A liaison office in Washington DC, called the Esquel Group Foundation (EGF) was also established. EGF raised funds from a couple of US foundations to help develop the Esquel network and, over time, country groups were established in Chile, Argentina, Uruguay, Brazil, Ecuador and Peru. The groups served as a means to share views and information and engage in research, publications, and organizing seminars throughout Latin America on matters such as rural development, the development of microenterprises, environmental protection and conservation, the foreign debt problem, and other concerns of civil society.

In the late 1980s, some members of *Grupo Esquel*, including its President Juan Felipe Yriart and Vice President Mizrahi, were wrestling with the issue of how to provide some structure and financing for initiatives in the network's member countries. They were introduced by a mutual friend to Peggy Dulany and Bruce S. Schearer, founding president and executive director, respectively, of The Synergos Institute, and discovered that local financing for development was a concern shared by Synergos.

"Synergos had been focusing on cross-sector partnerships to address poverty, but in all our relationships with nonprofit partners in the south the issue of resources kept arising," Dulany says. "It took so much time to raise funds that the idea of a pool of funds inside

the country seemed to make so much more sense."

What was needed in Latin American countries, they reasoned, was a foundation that could function independently to channel funds to local nonprofit organizations. They thought that the *Grupo Esquel* in each country might be able to play a role in developing such institutions. It was at this point in 1989 that Mizrahi visited Ecuador and reconnected with his old friend, Cornelio Marchán, who was, at the time, the country's Minister of Planning. Marchán was looking to leave government and offered to lead the initiative. He mobilized other Ecuadoreans who were part of the original group and he and Mizrahi approached Synergos with a partnership proposal.

For Synergos, this was an opportunity to get more deeply involved in an idea in which they believed. According to Schearer, Synergos agreed to join the initiative because, "Synergos associates had identified financing of NGOs as a major strategic area." Dulany further explains: "Synergos was interested in the foundation structure as a vehicle that potentially could be used around the world. However, Synergos needed to learn about the challenges, difficulties, and needs in establishing and growing this type of institution. FEE became a partner in learning about and solving these issues."

Several meetings were held between EGF, Synergos, and the working group that Marchán had mobilized to discuss strategies and goals. Marchán soon took over leadership of the initiative — a role that was, in Mizrahi's view, "critical to the organization's success....EGF took on a support and advisory role, and facilitated contacts but the leadership was in Marchán's

¹ JUNAPLA later became the Consejo Nacional de Desarrollo (CONADE).

hands.”

A team of ten persons (eight Ecuadoreans, one Chilean and one Argentinean) joined together to form the initial working group for the Foundation in April 1990. These individuals — mostly middle-class professionals with links to the social sciences, academic activities and economic and social development programs — became FEE’s founding members (see Annex 4).

“Those who formed the initial nucleus were people of great vision and commitment,” Schearer says. “They were not interested in creating an operational or technical entity. They really wanted change in their country. Their leadership led them to create an institution that operates at a much broader level than other Ecuadorean NGOs. That is still what motivates and informs their work. They never wanted to be [just] another NGO, but a real social change agent.”

Many of this group had been associated at one time or another with the *Junta Nacional de Planificación* (JUNAPLA),¹ the organization in charge of designing macroeconomic and social policies for Ecuador. Others had worked in the government Secretariat for Integrated Rural Development. And some were consultants for social development programs sponsored by international entities such as the United Nations, the Inter-American Development Bank, the Latin American Economic System (SELA), the Andean Pact, and the OAS. As such, they were involved in development programs oriented to low-income communities and had negotiated loans and commercial agreements with governments and international entities. Two of the founders had extensive experience in creating the legal and operational frameworks for rural development

institutions, and were familiar with matters such as financial management, grantmaking and institutional development. But none of the founders had previous experience in fundraising. In fact, few NGOs in Ecuador had such skills, because most received funds from the state, although this is no longer the case.

Marchán explains that the main motivation of the founding group was to contribute, from a nongovernmental perspective, “to the social, economic and cultural development of the poorest segments of Ecuador’s population by encouraging them in their initiatives, for the purpose of generating social processes which would modify current conditions of underdevelopment and social injustice.” In order to respond to the national crisis of poverty and underdevelopment, an alternative road to the future was needed. Specifically, the founders held:

- That traditional development models used in the past had been unsuccessful in introducing sustainable solutions to the urgent problems of Latin America;
- That funding for community development needed to be made more relevant and representative of the needs and conditions existing in areas where grantmaking was targeted; and
- An interest and commitment to nurturing the growth of the philanthropic sector in Ecuador, as a way of minimizing the dependency on external sources of financing.

At the time of FEE’s founding, 65% of the rural population lived below the poverty level; the underemployment rate was nearly 50% of the economically active population; one half of all children under five years of age suffered

from malnutrition; and only slightly more than half of all Ecuadoreans had access to basic services. Today, in the wake of the oil price decline of the 1980s, and structural adjustment policies of the '90s, an estimated 79% of Ecuador's 112 million people live in poverty.

Data published by the Youth Christian Association (ACJ), reveal that 20 out of every 100 babies are born without medical attention. Urban infant mortality is 38 per 1,000 live births, one of the highest rates in Latin America. Children and adolescents, who constitute 62% of the population, are among the worst affected. Child labor in unhealthy conditions and for below-subsistence wages is a serious problem. There are an estimated 1,500 to 2,000 juvenile gangs in the country, made up of around 60,000 minors between the ages of ten and eighteen. With little or no opportunities for employment or education, this vast portion of Ecuador's population remains on the margins.

Creation of a Plan and Start-up Funding

Four members of the founding group — Marchán, Boris Cornejo, Betsy Salazar, and Santiago Quevedo — were selected to form a full-time, volunteer work team that was mandated to find resources for research into matters related to creating a foundation. The members, who would later become the Foundation's first paid staff, were asked to investigate and make recommendations on legal and financial aspects, the kinds of projects that might be undertaken, relationships that might be established with grass-roots organizations, the character of NGOs in Ecuador, and the way in which FEE would be different from existing entities in Ecuador.

Synergos put the team in contact with the

Rockefeller Foundation and provided technical assistance in strategizing about their approach. "While the Ecuadoreans did an excellent job at presenting their case, the whole business of securing a grant from a US foundation was completely new to them," says Schearer.

Synergos' help in designing a proposal for Rockefeller was deemed very useful.

When the founders of FEE approached the Rockefeller Foundation, there was great interest in the idea of an endowed foundation in Ecuador. But, as the group had no experience, Rockefeller offered them \$180,000 to flesh out the strategy needed to establish and manage the new institution. According to Peter Goldmark, President of the Rockefeller Foundation, "Basically we wanted to see if this group could plan, think, create and build support. And they proved that they could."

With this money, the founding members conducted a feasibility study addressing legal, financial, organizational and operational issues surrounding the establishment of the Foundation. The grant was also used to prepare the mission statement and general operating guidelines, and it allowed the institution to legally constitute itself. As part of the preparatory work, Salazar and Quevedo visited several private and community foundations in the United States and in a number of Latin American countries.² They found that a good model for the NGO was that of a "community foundation" in the US, a foundation expected to originate from the community and to rely on local philanthropy and an initial endowment.

The Feasibility Study

The feasibility study recommended that the *Fundación Esquel-Ecuador* be created as a

² Some of the Latin American institutions visited included the Mexican Foundation for Rural Development (FMDR), the Foundation for Higher Education (FES) in Colombia, and the Puerto Rico Community Foundation (PRCF) - all of them case study subjects in this publication.

grantmaking organization with a plan for a permanent endowment to guarantee autonomy in decision-making and action. The Foundation would support medium and long-term initiatives and serve as an instrument to encourage individuals and organizations in civil society to invest in economic and social development. This is still essentially true of FEE today, although its programming strategies have developed beyond grantmaking to include other types of support.

The documents resulting from the feasibility study were:

- The statutes of the Foundation: its legal status, objectives, governing and technical bodies and their responsibilities, its property and assets;
- Social development policies and strategies for their implementation;
- A control and evaluation system containing criteria for preparing and presenting social development projects as well as for program evaluation, follow-up and monitoring;
- An organizational design;
- A financial feasibility study, addressing program financing policies and strategies, mechanisms, sources and use of funds;
- An analysis of the debt swap mechanism for converting foreign debt into funds for social development programs and its appropriateness for FEE's program financing; and
- A workplan that identified 15 development projects and eight project profiles for possible implementation with NGOs in urban and

rural areas.

Taking into account the findings of the study, the founding group decided that the legal status of a nongovernmental organization was the most appropriate for fulfilling FEE's mission, and the organization was officially established in August 1990. As a nonprofit organization, FEE would not be subject to taxation at the national level, but would pay municipal and other sales taxes, such as the value-added tax.

The feasibility study also posed specific recommendations about the kind of financial structures that would be most appropriate for the new foundation, specifically:

- The creation and administration of a Basic Trust Fund (endowment), as a "mechanism through which the Foundation would search for a stable funding source to facilitate the implementation of selected projects and guarantee the Foundation's autonomy in decision-making and management tasks."

To maintain the value of the fund, the study proposed that it be kept in strong currency markets to protect against inflation, and that the Foundation convert to national currency only those resources specified in established distribution schedules. Half of the profits obtained from endowment investments would be earmarked for the endowment, the other half would be used for the Foundation's operations. The study suggested a five-year target of US\$ 25 million.

- The establishment of a Special Trust Fund, with a percentage of the earnings from the investment of endowment monies. This Fund would provide for the creation of the Foundation's Commu-

nity Management Support Funds (*Fondos de Apoyo a la Gestión Comunitaria-FAGC*), conceived as a financial support system to motivate self-management and community development.

- A foreign debt conversion of US\$1 million. In the secondary market in those years, foreign debt bonds were quoted at up to 18% or 19 % of their nominal value. The allotment of US\$1 million for this purpose would provide for the purchase of up to US\$5 million of foreign debt, which could be exchanged at the Central Bank of Ecuador for US\$2.5 million.

Carrying out the Plans

With a clearer picture of the institution they wanted to create, the work team prepared to return to Rockefeller for a larger grant to launch the institution. Regina Rippetoe from EGF and Synergos's Schearer spent a month in Quito with the team to advise them in preparing an extensive proposal and financing plan.

The negotiations met with success. The Rockefeller Foundation offered a bridge grant of \$250,000 in 1991, which allowed the group to begin institutional development and provide some grants. Rockefeller eventually approved a \$1.5 million grant in 1992, part of which was to be used as leverage for a debt swap transaction with the Central Bank of Ecuador.

Why did Rockefeller believe so much in Esquel-Ecuador? According to Goldmark, "Esquel-Ecuador was an example of what Rockefeller defined as a foundation-like organization, that is, an institution made up of authentically local groups, having multi-purposes, having a philosophy of development

and social change, having an interest in engaging local wealth and with solid local leadership. Also, it was important to us that Ecuador was a very poor country and ... there was nothing like it in Ecuador. Thus, Esquel fit all the criteria emerging in our mind."

Part of the negotiations involved linking FEE with another new foundation initiative — the International Youth Foundation (IYF), a US-based organization dedicated to promoting the development of locally-based foundations for children and youth in other countries. Goldmark saw an opportunity to help both institutions by encouraging IYF and FEE to form a partnership and thus channeling funding through the US institution to FEE. Since FEE had identified

children and youth as a major, although not exclusive, focus of their grantmaking, they were able to establish a relationship, which continues fruitfully today. This allowed FEE to obtain

additional operational funding directly from IYF as well as a matching commitment of up to US\$1.5 million for its endowment.

Carol Michaels O'Laughlin, Director of Programs for IYF, says that "It was really a moment of opportunity. Ecuador was among the countries IYF planned to work in....FEE fit a lot of our criteria in terms of being pluralistic, having a diverse Board, having a system in place for program review, being national in scope and being a foundation, having a mandate of working with children and youth, and being committed to local philanthropy...."

Once the initial funding was in place, FEE's energies were directed at beginning its grant-making and building the institution. A key focus was preparing the application for a debt swap transaction which could multiply some

of the Rockefeller grant by 250%. Negotiating with the Central Bank of Ecuador and creating FEE's first Social Development Program (a portfolio of thirty-three projects to be funded with the debt swap proceeds) took a lot of time and energy, but with the resulting US\$2.5 million, FEE was able to launch its first significant grantmaking in 1992.

Governance

Developing the Mission and Vision

The founding members of FEE believed that the public sector's efforts to deal with the economic and social crisis in the country had not only been inadequate but misguided. First, they neglected to recognize that Ecuador is a heterogeneous society, and official policies to handle the crisis excluded diverse national sectors, especially the poorest groups in the population. Second, little progress had been made in consolidating a democratic system, re-established at the beginning of the 1980s after ten years of civil and military dictatorship.

Based on those beliefs, the founders outlined a mission statement that reads:

Fundación Grupo Esquel-Ecuador is a private, nonprofit legally incorporated entity subject to the laws of Ecuador. The Foundation is free from political, religious or commercial interests, and its activities are based on respect for all creeds and ideologies, on solidarity with the most indigent members of the population and on strengthening the democratic principles which will permit the attainment of social justice within a context of pluralism and tolerance.

The Foundation respects the autonomy of the communities and institutions with which it collaborates. Its relations with the State and with the organizations providing technical and/or financial cooperation, both national and international, are based on mutual respect, and designed to facilitate efforts in favor of common objectives.

Esquel's principal commitment is to work with impoverished sectors by supporting their social, economic and cultural devel-

opment, backing their initiatives and promoting their capacity to generate their own development alternatives.

The specific objectives of FEE, as stated in its by-laws, are to:

- Obtain and provide financial support for projects which seek to improve the standard of living of all those populations living in poverty;
- Strengthen community organization and encourage the active participation of the least advantaged in the understanding and analysis of their own circumstances, in the formulation of concrete solutions to their problems, and in the definition of projects;
- Cooperate with social subjects in the formulation, implementation, monitoring and evaluation of projects;
- Continuously objectively evaluate the situations and the social impact produced by projects in order to provide feedback for the development process;
- Cooperate in the autonomous development of the scientific, technological, economic, legal and managerial capacities of communities;
- Provide advice and technical assistance to social organizations and any other private or public entities that require it, with the expectation that such technology transfer will be assimilated in a critical manner;
- Promote the development of the social sciences within a context of support for the cultural expressions of the Ecuadorean population;

- Analyze past experiences, design and conduct complementary studies, and hold events and meetings to promote a better understanding of the Ecuadorean reality; and
- Disseminate the results of research and projects implemented, using communication and publication techniques most appropriate for the social groups and institutions targeted.

The Foundation also has a set of eight “institutional principles” that guide its activities, which encompass respect for laws and for individuals, solidarity with the poor, tolerance of all creeds and ideologies, environmental protection, cultural plurality, support for local initiatives, and the generation of institutional and financial mechanisms to mobilize under-used or neglected resources.

Validation Process

Once the Foundation was legally established in 1990, it worked on formulating an array of institutional materials to communicate FEE’s mission and vision. Seeking to assure their validity and to include outside perspectives to enrich them, the Foundation convened a national workshop attended by twenty-six representatives of twelve social development organizations such as NGOs and grass-roots organizations, three public entities, and individuals.

Participants analyzed FEE’s philosophy and the cornerstones of its institutional development: policies and strategies, action areas, project formulation and evaluation, organizational design, and the proposal for institutional support to promote an alternative development model. According to Cornejo, FEE’s Director of

Development:

The main outcome of this workshop was [general agreement] that we were well-oriented in our mission and vision and that our institutional structure and organizational design were consistent with our work proposals. But more important was the participants’ contribution to the Foundation. ... Due to their experience in working with the neediest sectors of the population, they were in a position to tell us what we should and should not do.

Having obtained validation at the local level, FEE decided to communicate its mission and vision at the international level. It organized a workshop with a small group of foundations and institutes that had experience with situations FEE might face in the future. The event was held in Quito in mid-January 1991 and was attended by representatives of national social development organizations as well as delegates from the Puerto Rico Community Foundation, the Carvajal Foundation (Colombia), the Mexican Foundation for Rural Development, the Center for Development Research and Promotion (DESCO, Perú), the Rockefeller Foundation, Synergos, EG, and the United Nations Development Program (UNDP).

Once again, FEE was able to learn from participants’ experiences on policy and strategy formulation, project impact on the promotion of social change, models of institutional organization, fundraising procedures, and investment and maintenance of endowments, among other matters. “The experience of representatives of foreign foundations who attended the workshop was very useful in orienting our work on those issues,” Cornejo says, “especially on fundraising techniques, approaching foreign donors and funders, and mechanisms to strengthen national philan-

thropy.”

Organizational Structure

FEE’s governance structure was created by the work team after it had researched experiences of other entities. According to Cornejo, “...the Puerto Rico Community Foundation was an important source of inspiration, especially with regard to the composition of the Board of Directors and to the staff size. It appeared to be a good model for us due to its flexibility and efficiency.”

As established in the by-laws, the Foundation’s governing bodies are:

- The General Assembly;
- The Advisory Council;
- The Board of Directors; and
- The Executive Committee

The General Assembly

The General Assembly consists of all ten FEE founders and former directors who have expressed their willingness to serve as members. One of the early tasks of this body was to designate members of the first Board of Directors. The ordinary General Assembly meets once a year. An extraordinary General Assembly may be called by the chairman or the Executive President when specific matters cannot wait for the annual meeting.

The functions of the Assembly are to:

- Ensure the fulfillment of the Foundation’s objectives;
- Consider amendments to the by-laws and submit these to the appropriate authority for approval;

- Receive the annual report of the chairman of the Board and the Executive President at the ordinary General Assembly; and
- Decide upon the dissolution of the entity and the disposal of its property.

The Advisory Council

The Advisory Council is composed of respected individuals of national and international stature and civil society community leaders who, at the invitation of the Board of Directors, provide advice in their area of expertise. Currently, it consists of fourteen members: three work with youth-oriented foundations; three with women organizations; two are leaders of poor urban neighborhoods; two are the leaders of the two most important Indian confederations; three (of whom two are priests) preside over organizations working in rural areas; and one is from a US-headquartered international NGO.

The Board of Directors

The Board of Directors’ role and responsibilities as stated in FEE’s statutes are to:

- Identify and define the policies of the Foundation;
- Approve investment and financial strategies;
- Approve the work plan prepared by the Executive President;
- Authorize institutional agreements (national and international);
- Determine new program areas;
- Approve projects with grants of over US\$100,000; and

- Appoint the Executive President.

The first Board of Directors was appointed by FEE's founding group and had eleven members. Members were designated on the basis of their commitment to FEE's objectives, participation in its organization and establishment, and role as signatories of its incorporation documents. Board members are individuals recognized for "their civic excellence, their irreproachable honesty and proven capacity for public service. In view of their merits, they constitute a guarantee of independent institutional operation, free from influences of a political or religious nature or of a nature which is incompatible with the fulfillment of the basic objectives of the Foundation," says Marchán. The Board elects a three-member Nominating Committee to nominate candidates for retiring Board members. At least three Board members must be replaced every three years. The Board members serve on a volunteer basis and for periods of three years, with no more than two consecutive terms of service, after which they must remain inactive for at least one period. The Board is only accountable to donors for those projects funded by them.

FEE's current Board has twelve members and does not include any of the founders. It is comprised of representatives from industry, banking, the media, academia, the church, NGOs and outstanding citizens. There is an attempt to achieve geographic and gender balance. The current Board includes three women, as well as one non-Ecuadorean, Dr. Hugo Lora Camacho, the former President of the Foundation for Higher Education (FES) of Colombia. While FEE staff have from time to time discussed whether it would be advisable to include direct representatives of grassroots groups on the Board, the organization has generally viewed that as creating potential

conflicts of interest.

Up to now, the Board has played largely a supportive rather than a leading role. Despite the powers granted to the Board in FEE's statutes, in actual practice new initiatives and institutional direction derive primarily from staff. As stated by Cornejo, Director of development, "... at this period in the Foundation's life, activism and institutional dynamism depend more on the staff than on Board members. The Board is fully supportive, its members back up the staff, but they do not lead as a Board."

There is a good working relationship between the staff leadership and the Board that makes decision-making flow smoothly. To make for a more effective interaction between staff and directors, the Board has designated five committees: financial, technical, communications, administrative, and accounting and auditing. As each committee is presided over by a Board member, approval of decisions by the committee president is endorsed by the Board as a whole. Leaders of each committee are designated by the Board on the basis of their relevant experience.

According to the by-laws, the Board should meet at least once every quarter, but, due to the rate at which FEE's activities are growing, this is no longer sufficient. Luis Gómez Izquierdo, Chairman of the Board says that, "For Esquel's purposes, we should meet once a month, but considering the composition of the Board it is not easy to engage the directors in such a discipline."

Staff leaders have voiced a desire to have a more active Board and have begun to discuss mechanisms to strengthen the Board and its role. "To ensure a higher degree of participation," says Marchán, "we are now trying to meet with our Directors by groups, for exam-

ple, according to geographical areas where projects are going to be implemented, or [according to] matters needing to be discussed.”

And, he adds, “Considering the magnitude of Esquel’s activities, the Board cannot continue to be satisfied with things as they now stand — as a body well-informed of staff’s proposals — because major decisions are the responsibility of the members. I am about to suggest that each member ‘sponsor’ — in a moral sense, I mean — a project or group of projects, in order to strengthen Board participation and effectiveness.”

The Executive Committee

The Executive Committee is composed of the Chairman of the Board, the Vice Chairman, and the Executive President. The committee meets once a month or when convened by a member. Its functions are:

- To comply with and ensure the fulfillment of the by-laws and regulations.
- To interpret the Foundation’s by-laws and regulations.
- To approve the financial standards presented by the Executive President.
- To be informed of technical reports and financial statements presented periodically by the Executive President in accordance with the general regulations.
- To be informed of and approve those projects for which the total grant is between US\$30,000 and US\$100,000. These projects will be presented by the Executive President following the corresponding technical study.

Operational Staff

Four of the seven full-time professionals on the FEE staff (as of mid 1995) were founding members of the Foundation: Executive President Marchán, Director of Development Cornejo, Director of Programs Betsy Salazar, and Development Analyst Modesto Rivas. A fifth founding member, Santiago Quevedo, served as Director of Programs until 1994. Another founder, Luz Elena Burbano, was recently hired as a consultant for technical assistance for the Proceso Project, a credit and investment capital project for which FEE obtained substantial resources from the Inter-American Development

Bank (IDB).

The Executive President

The Executive President (the title was changed from Executive Director in 1993) is appointed by the Board of Directors, and can be removed by the Board. As established in FEE's by-laws, the Executive President is responsible for ongoing operations and management of Foundation activities in accordance with its by-laws. The Executive President submits the annual work plan and report to the Board for consideration and approval, as well as technical reports, financial statements, etc. He also proposes guidelines for investing the Foundation's financial resources, and approves project grants for under US\$30,000.

Staff Size, Recruitment and Development

As per the feasibility study, FEE's organizational structure was fashioned to generate dynamism in operational processes and to avoid the creation of a bureaucracy. For this reason, the Foundation's policy is to maintain a small staff. Most technical and auxiliary personnel are contracted temporarily for specific tasks and projects, and the required institutional services are hired by FEE from other organizations or private consultants. However, given the rate of FEE's growth in the first five years of its existence and demands for its support, there is a tension between managing the workload and maintaining a small staff size.

Staff members are primarily motivated by their belief in FEE's mission. Before contracting an individual, Esquel determines whether or not he/she shares the Foundation's principles and commitment to development. Only after this is established are professional qualifications for the task considered. Training courses on pro-

gram design and grant management are offered to staff, who are divided into three units: operations; development and communications; and administration and finance.

Interaction between staff and members of the Board is primarily through the Executive President. Specific issues sometimes require that this channel be established with other staff members. For example, when the finance commission meets — with Board members and external advisors participating — the Director of Administration and Finance assumes the role of linkage to the Board.

Community Input into FEE Decision-making

There is no formal mechanism for community groups to directly influence decision-making on grants or other programs. In fact, it is FEE policy not to include on the Board of Directors representatives of the social groups to which the Foundation's efforts are oriented. "This would create a conflict of interest," explains Cornejo, "since it would involve said groups in making decision about projects from which they might benefit, either as individuals or as representatives of organizations."

Nevertheless the Foundation's overall strategies and program priorities are informed by community perspectives and views through the involvement of civil society community leaders in the Advisory Council, and on a Youth Advisory Committee which regularly advises FEE on its programming for children and youth. More informally, FEE's Citizen's Forum and Youth Forum programs also provide an opportunity to hear the concerns of civil society, incorporate suggestions and adjust program strate-

gies. Finally, as described in the chapter on Program Evolution and Operations, FEE maintains a policy of participatory evaluation of projects, in which grantees and community members participate and provide feedback and ideas for enhancing project effectiveness.

**Table 2: FEE Project Support 1995
by Program Area**

Program Area	Number of Projects	Funds (US \$)
Community participation in urban development	5	395,442
Education	5	162,463
Income generation	4	71,873
Others	3	39,915
Health	1	6,188
Total	18	675,881

Program Operation and Evolution

Fundación Esquel-Ecuador develops its programming with the ultimate purpose of attaining the institution's goal, namely: "a transformation of Ecuadorean society which changes the underlying processes of poverty and social injustice." To date, FEE has three main program areas that were developed as strategies to attain this goal:

- Grantmaking to co-fund community development projects that are viewed as part of a larger process of empowerment of marginalized populations. (Grantmaking is informed and strengthened by studies, technical assistance and seminars);
- Building national consensus around key

development issues and the search for development alternatives (citizens forum, youth forum, conferences and papers); and

- Fostering a more supportive culture of local philanthropy and solidarity with disempowered populations. (This is both a funding strategy and a program goal).

In 1995, FEE was to launch a fourth strategy — credit and investment capital for community enterprises — through a new program called Proceso (Program of Community Economic and Social Development).

Grantmaking

Based on the recommendations of the feasibility study, FEE's priority funding areas are:

- Income generation projects;
- Organizational and community develop-

Table 3: FEE Supported Projects 1992-1994 by Targeted Sectors

Targeted Sectors	Number of Projects	Funds Allocated (US \$)
Women	6	91,086
Children and Youth	22	476,581
Indigenous sectors	9	240,138
Poor communities generally	14	278,167
Total	51	1,185,972

**Table 4: FEE Current Project Support 1995
by Targeted Sectors**

Program Area	Number of Projects	Funds Allocated (US \$)
Women	4	71,394
Children and Youth	8	196,477
Poor communities generally	6	408,010
Total	18	675,881

ment;

- Health;
- Education;
- Environment and development; and
- Urban and Rural development.

The Foundation gives priority to programs that benefit youth, children, women, and indigenous populations and stipulates that its funds cannot be used for political or party activities; operational and administrative expenses not related to a specific program; expenses or salaries of government employees; study grants; or communication or media events not related to FEE funded projects.

Grant Recipients

While FEE targets funding to recipient groups living in extreme poverty, it expects that members of the groups have achieved some

degree of organization and display potential in terms of organizational abilities and providing contributions from local resources. Although the direct beneficiaries of FEE are community groups, it was decided that FEE should channel its funds through “sponsoring” agencies able to provide technical support or assistance, such as NGOs or academic centers. This allows FEE to maintain a small staff and not need to develop in-house expertise in many project areas.

Among the criteria for accepting a proposal are that:

- The initiative must come from potential beneficiaries or NGOs which work with organizations in specific areas;
- It specify the purpose of the support requested, characteristics of the requesting NGO(s) and/or community organizations, the project’s geographic location, the number of beneficiaries, and the amount requested;

- Requests made by groups such as community organizations, neighborhood associations, cooperatives, etc., will be given priority. Such groups may or may not be legally incorporated;
- Requests for project financing may be presented by any civil society organization or NGO. Proposals may be made for new programs or for existing ones; and
- NGOs that act as project intermediaries must be nonprofit organizations capable of providing technical assistance in the planning and implementation of social development projects. They must be legally constituted with goals similar to those of the FEE.

The relationships between the Foundation and the beneficiaries and/or institutions are stipulated in contracts of agreement or mutual cooperation. FEE provides an application form which facilitates comparison of the organizations seeking funds and also includes data on the characteristics of projects, organizations sponsoring the proposals, matching funds offered, and possibilities for cooperation among those requesting assistance.

The information included on the application is analyzed by the Internal Committee for Projects, made up of the Foundation's Project Officers. The committee ensures that the technical content of projects is consistent with the Foundation's principles in strategic and programmatic terms. Their assessment and recommendations are presented to the Executive President and, through him, to the Board of Directors for grant amounts exceeding US\$30,000.

Grantmaking, 1992-1995

FEE began grantmaking activities in 1992 by launching its first Social Development Program which consisted of thirty-three projects. Because of its policy of working with other NGOs and community groups in executing projects, FEE was able to begin a large grant-making program with a very small staff. In its first two years, the Foundation provided support to fifty-one projects for US\$1.186 million with a combination of funds derived from external donors and the debt swap.

The majority of the funds came from the debt swap (US\$1,214,367), with additional grants from the Rockefeller Foundation (\$81,939), the Botwinick Wolfensohn Foundation (\$37,200), and the Forestry Development Program of Canada (\$17,400).

During this time, the Foundation staff worked to develop the endowment to sustain grant-making capability, but initial efforts were not successful. A fundraising campaign that resulted in increased giving coincided with a major natural disaster which diverted funds. As a result, FEE's grantmaking declined, and in 1995, the Foundation supported eighteen projects, totaling US\$675,881.

FEE requires a counterpart contribution from beneficiaries, in the form of money, labor, material, and/or infrastructure. On average the counterpart contribution is half of the total project cost.

Table 1: FEE Supported Projects 1992-1994 by Program Area

Program Area	Number of Projects	Funds Allocated (US \$)
Income generation		
		20500,319
Education		
		18358,053
Health		
1	51,862	
Health/Education		
1	15,500	
Community participation in urban development		
5	160,155	
Agriculture		
4	88,183	
Technology		
2	11,900	
Total		
		511,185,972

Identifying Grantmaking Opportunities and Targets

Initially, FEE distributed information on its grantmaking initiatives and application procedures to a wide range of NGOs and grassroots organizations and, through direct contact with implementing organizations, soon became

familiar with projects in search of funding. The

organization has less need to disseminate information because FEE is now well-known among potential grantees and, from the outset, requests for funds have been greater than available funds. The Foundation has developed a data bank of projects in search of financial support based on which it outlines its fundraising goals so as to raise the funds needed to provide grants to these projects.

The groups most affected by poverty in Ecuador — children and youth, women, and indigenous peoples — are FEE's target populations. While FEE's activities are not specifically gender-based, a large percentage of projects funded — more than half, according to Salazar — focus on women and/or involve women's participation. Thirty-four percent of projects sponsored by the Foundation since 1992 have a component dealing with children and youth, and 34% are focused on the rural sector, in which members of minority ethnic groups are involved.

All financed projects benefit community organizations serving the poor, and funds are often channeled through NGOs. FEE has operated programs directly only in a few cases. When the grassroots organization demonstrates sufficient organizational ability and independence in terms of running a project, it is not necessary for a third party, such as an NGO, to be the responsible grantee.

The target groups are not mere recipients of resources from FEE. There is a “partnership” agreement which entails counterpart contributions as well as community participation at all stages. Staff member Modesto Rivas, who is responsible for the Youth Forum, describes a counterpart arrangement:

In the Guasmo Central in Guayaquil, we have supported a project of water tanks where there was no water. We put up the materials, but it was the community that built the tanks, at no cost. In this case, the counterpart is valued in function of the labor offered by the community. This value is what is called technically imputed cost value.... This counterpart requirement...guarantees the continuation and maintenance of projects over time. With this, FEE complies with its stated mission of converting social subjects into social actors.

Criteria for Selection of Projects

In line with its grant application procedures, FEE’s criteria stipulate that projects:

- Benefit the least advantaged (i.e., those who live in conditions of extreme poverty);
- Strengthen existing local organizations or contribute to the formation of new ones;
- Promote job creation and income generation;
- Develop self-management mechanisms and encourage local contributions;
- Protect and develop local natural resources;
- Achieve goals of each stage within a

specified time period;

- Involve meaningful beneficiary participation in design, implementation, and evaluation;
- Offer some guarantee of autonomous continuity over the medium term (without the intervention of FEE) in management and financing; and
- Display strong organizational and management capacity of the implementing institution(s).

The issue of selection criteria was the subject of extensive discussion among FEE's founders. According to Cornejo, "We tried to design a minimum set of criteria, based on what we

conceived as social development. We are convinced that a strict evaluation system assures good project selection."

Gustavo Larrea, former technical coordinator for projects, explains how the First Social Development Program was put together:

We chose proposals that had grown out of grassroots participation, not those designed by individuals sitting at a desk. In the selection process, we consulted with members of social organizations. We wanted those which were likely to survive as a result of the initiative of the people they would serve....Thus, we chose projects in which the community participated, projects that were innovative and proposed concrete alternatives to problems experienced by the community in general.

Of all the criteria, the one focusing on the participation of beneficiaries at all stages of the project's development is seen as the most important. The feasibility study notes that, traditionally: "The preparation and presentation

of social development projects...have been left to specialists...Since Ecuador is facing a severe economic and social crisis, social subjects tend to accept any project that is proposed to them, whether or not it meets their basic needs." In contrast, "For Esquel a project is an instrument of intervention in a social development process in order to make it more dynamic; such intervention — according to the philosophy of the Foundation — should convert social subjects into social actors."

FEE considers its funding as "seed" money provided to projects that have the potential to become self-sustaining and have a multiplier effect. The Foundation has not established an upper limit for its grants. However, with the new financing from the IDB, the staff has begun to consider setting limits to grant amounts and other modes of funding.

When a grant is awarded, an agreement is signed which has the legal weight of a private contract. The document includes conditions common to all projects funded in addition to terms specific to the unique characteristics of each project. The agreement sets out FEE's strict financial and narrative reporting requirements and the disbursement schedules associated with the grant funds.

Technical and Administrative Assistance to Grantees

Because the criteria used by FEE to approve and finance projects are generally stricter than those used by other foundations or NGOs in Ecuador, FEE believes it is essential that technical and administrative assistance be provided to grant recipients to help them be able to meet the criteria. This is a task performed by the staff or consultants. One of the major problems that FEE identified from the outset was the lack of training for NGO workers. This led the Foundation to undertake training as

one of its programmatic strategies.

In the words of staff member Modesto Rivas, “As a rule, in this country, training programs have a duration of four to five days, and there is usually no follow-up. The Foundation considers that training cannot be measured in terms of a week, but rather in terms of a year or two. After each training period, we do an evaluation that later allows us to extend technical assistance where we have identified problems or needs.”

Another problem has been the centralization of training in the largest cities. As Rivas points out:

This has led in many cases to a situation whereby Quito NGOs undertake the resolution of problems or the implementation of projects in other provinces or towns, without necessarily having an accurate knowledge of the reality in which they have to work... The fact that training has not been provided at the regional level has meant that many provinces have neither the NGOs, nor the grassroots organizations to originate programs.

This, says Rivas, “brings on another problem: Although those communities might know how to express their needs, they do not always know how to present their demands.”

Within the framework of its training program, FEE has put in place institutional development for the NGOs and community organizations that work directly or indirectly with the Foundation. Workshops have been offered in the areas of project development, project administration, and accounting and financial management. The Foundation also provides training to interns associated with partner organizations, who work on specific projects within its offices.

FEE’s training programs have introduced a methodology practically unknown in Ecuador — “action networks” around which institutions group the best of their abilities and assets. NGOs are discovering the benefits of working in networks. For example, FEE supported a nationwide network of 64 organizations working with disabled people, headed by FASIN-ARM, a prominent federation. The members formed a technical committee and developed a joint program of institutional strengthening.

Difficulties Related to Grant Terms and Forms

FEE staff agree that a major difficulty is the inability of many potential grantees to meet the rigorous demands of the Foundation's project selection criteria. The selection process takes into account not only project goals and objectives but also the institutional capacity of the sponsoring/implementing entity. FEE has developed a series of materials to train and strengthen an institution in order to increase the probability of success for a project before it receives financial support.

Another difficulty is related to project monitoring. FEE awards grants in periodic installments and recipients must account for these payments. On more than one occasion, the Foundation has been obliged to suspend funding because requirements have not been adequately satisfied.

Gustavo Larrea, the former Technical Coordinator for projects, believes that the Foundation needs to adopt a more flexible attitude in this respect. "It seems to me that the administrative-financial problem is an important one, but that it is not the heart of the matter," he says. "An excessively rigid set of administrative demands means that projects are subject to interruptions when they do not achieve easy access to resources required for normal development."

In contrast, according to Cornejo, "Strictness in project selection, follow-up and evaluation has contributed to FEE's track record. We do not think Esquel should become more flexible in its program selection, monitoring and evaluation procedures. Instead, we prefer organizing workshops and providing technical assistance, so that grant recipients can meet our requirements."

Santiago Ortiz, secretary general of the Christ-

ian Youth Association (ACJ), an FEE grantee, believes that the rigorous procedures have helped the ACJ to improve its own systems of internal evaluation. With regard to quarterly disbursements of resources, at one point his organization thought about the possibility of requesting a "bridge grant" from the Foundation to tide it over from one funding period to the next. But the stringent requirements seem to have had their desired effect: "We have now become used to working without those transition funds," he says, "and we have managed to prepare acceptable reports punctually."

There have been a few cases in which organizations or groups receiving funding have simply not agreed to the conditions set forth through the grant agreement.

Monitoring and Evaluation

In general, the Foundation uses evaluation "to measure the project's social impact, and to aid beneficiaries in assimilating the experience and working to develop it further during the implementation phase." Evaluation and monitoring procedures are generally determined by the information in the project proposal on indicators and objectives which reflect the expected results of the project. All evaluations, throughout the life of the project, involve FEE, the community and the NGO(s).

The Foundation staff undertakes quarterly evaluations if the community or NGO requests them or if the FEE technical staff believe that one is called for. In this case, an analysis of the technical progress of the project is made, as well as a study of the compatibility between the original proposal and what is actually taking place. As a result, the process involves not only a post-project follow-up, but also a continuing involvement of the Founda-

tion staff as it accompanies communities and NGOs throughout the implementation of the project. This facilitates the introduction of changes that are deemed necessary at the appropriate time.

Generally, grantees present a written quarterly report, describing the technical progress the project is making. A financial report is also submitted, including documentation of expenses. Projects are also visited by the Foundation staff and there is constant communication with those involved in implementation.

The traditional end-of-project evaluation is seen as “deficient,” by FEE Directors, who have instead developed a system that uses the following criteria:

- The fulfillment of the proposed objectives, their agreement with social and institutional objectives; whether and how the social subjects become social actors during the process; and the project’s social impact;
- A holistic evaluation of the project’s formulation, the programming implementation and the adjustments established during the process, in relation to the obtained results; and
- The experience gained by the community during the project’s management which can be used by other social subjects and/or in future projects.

The Foundation takes into account adjustments made during the project’s implementation that helped it adapt to its specific circumstances, to the local conditions, and whether these rendered positive results without altering the project’s basic objective. While indicators of

program achievement vary according to the specific project, FEE uses an array that includes:

- Participants’ assimilation of previously unknown alternative technologies;
- Results of the use of technologies known by the social subjects;
- Improvement in the income of an individual, family, and /or social organization;
- Degree of self-management, popular collaboration, and participation by the community in project implementation;
- Extent to which social subjects have become actors;
- Utilization of natural resources from the locality where the project was implemented;
- Transferability or replicability of the experience;
- Improvement in basic services such as education, health, recreation, transportation;
- Strengthening of social organization;
- Participation of women, children and youth;
- Accumulation of a trust fund that makes the project’s continuation viable;
- Quality of management and administration;
- Identifiable changes in skills, knowledge, attitudes, or practices (SKAP) among participants and their families; and
- The extent to which the project truly responded to the problems and needs of

³ A global forum of extremely effective youth programs from around the world.

social subjects, and facilitated social organization.

In the view of FEE, “The predefinition of results is a key element in measuring program achievement. If results are achieved, FEE measures impact.” In some cases, not only are results achieved, but surpassed. The staff of FEE states that when this happens, “we are very careful to identify what has led to this multiplier effect, because this might be able to be reproduced in other projects.”

Former Technical Coordinator Larrea is critical of FEE’s approach. “Esquel...prefers to work with projects in which success is guaranteed, rather than take risks. The Foundation chooses to associate with strong institutions with a track record...In this respect, I had, and continue to have, discrepancies with Esquel, in terms of its development focus, because when one is prepared to work only with solvent partners, it is very difficult to propose certain development objectives: solvent partners do not want to transform reality.”

Project Impact

Project impacts have been significant, judging by statements of those involved and examples provided by FEE staff. One project, “The Weavers of Gualaceo,” involved a group of peasant women who received a grant of slightly more than US\$2,000, with which they developed their organizing skills to create a productive project. At the beginning, 30 girls were involved. After two years, during which a process of intensive training and organizational development was undertaken, their association involved 400 female artisans who had established credit in the formal banking system and were producing and selling their work under more favorable conditions.

Similar impact has been seen in the “Community Action of Machala” project, begun with support for the construction of housing by community members, and the creation of family gardens managed according to ecologically sound principles. Subsequently, women from the community organized themselves to raise chickens, and are producing feed for these with bananas rejected for sale. They sell the chickens in poor neighborhoods at prices below those generally charged for commercially produced fowl. In addition, they sell their products in the center of Machala, the capital of the province of El Oro, and have also opened restaurants in the center of the city, where they serve dishes made with the products of gardens and chickens.

Current program director Salazar says this project exceeded all initial expectations, incorporating a number of actors whose participation was not foreseen, and technical activities that were not planned at the outset. In addition, project participants involved others in the process, including the University of Machala, an ecology foundation, a bank which manages their savings accounts and personal loans, and the municipality of Machala which responded to the dynamism of the grassroots organization by providing filler for street pot-holes and installed community cisterns.

The major practical difficulty FEE has faced in terms of program evaluation and monitoring relates to the use of temporary contractors or consultants. On occasion, these individuals have not fulfilled the expectations of the Foundation and have sparked conflicts with stakeholders involved in the implementation of three projects.

Consensus Building on New Development Alternatives

The staff of the Foundation believe that, in order to address the socioeconomic problems in Ecuador, they must pursue study, research, and the promotion of alternative forms of development. Thus, in addition to channeling resources for community projects, FEE conducts social development research and organizes debates, colloquia, and meetings for the exchange of information. This type of activity is based on the institution's policy of engaging in an analysis of development alternatives through a model that incorporates extensive participation by members of civil society. The Citizen's Forum and the Youth Forum are two examples of this activity.

In its 1994 annual report, the Foundation observed that:

This time of transition in our country's history ...from a model of development with strong state intervention towards one based fundamentally on the market...requires new forms of social organization and participation, not only to prevent the fruits of the new model from being concentrated in minority beneficiary groups, but also to simultaneously advance modernization in those popular sectors which constitute the majority of Ecuador's population.

All this demands the creation of new and renewed forms of dialogue among Ecuadoreans, which will facilitate the identification of national objectives for development in the long-term, and which will demonstrate that consensus is the only way to reach agreement within a society as heterogenous as ours.

It was to fulfill this aim that FEE decided to create opportunities for dialogue and bring together representatives from diverse fields and regions in order to draw up a national

agenda and begin to identify the basic points on which consensus might be attained "to consolidate the new model with democratic participation for the benefit of the national majorities." As stated by the Foundation, "the creation of the Citizens' Forum, by Esquel, for all those in society who are interested in this type of dialogue, aims at satisfying this national demand."

During 1994, the Citizen's Forum held a national seminar and several meetings and workshops to analyze and discuss the main socioeconomic and political issues the country was facing: modernization, privatization, and constitutional reform, among others. The reports were widely distributed, and the meetings were occasionally covered by the press. These meetings and workshops continued to take place in 1995. According to Marchán: "By dealing with subjects such as privatization, modernization, new social policies, constitutional reforms, the role of youth groups, an appropriate policy aimed at children, we are transmitting our vision and our principles."

The Youth Forum was developed to enable adolescents to discuss their problems and analyze national issues, at a level of representation that would make it possible for them to negotiate their interests with the government and civil society. Throughout the year, workshops were held in several cities.

Fostering Local Philanthropy and Solidarity

In the second half of March 1993, FEE launched a national campaign to encourage Ecuadorean citizens to increase their participation in philanthropy. The theme of the multimedia campaign, which lasted twelve weeks, was "Lend a Hand to Your Ecuador." The messages and spots which appeared on radio, in newspapers and on television, were

provided at no cost to the Foundation. The campaign was part of a long-term process to increase individual giving on the part of Ecuadorean citizens.

During the campaign, however, national attention was drawn to a natural disaster — a huge landslide that buried entire villages and agricultural land belonging to small producers and owners of country homes, paralyzing an entire region in the south of the country. Industrial plants and a thermo-electric center also disappeared, primary communication lines were destroyed, as well as a railway line, telephone lines, water supplies, and some schools. In addition to the loss of approximately 100 human lives, innumerable jobs were lost and hundreds of peasant families were left destitute. The majority affected were inhabitants of an area characterized by extreme poverty.

In light of this disaster, FEE immediately changed the direction of its public campaign and called for national solidarity to help with the situation in the affected area. The campaign generated over US\$1 million which was sent to the victims through the Archdiocese of the region.

After this reorientation, it was not possible to fully evaluate the extent to which the publicity campaign would have generated funds or strengthened the spirit of national philanthropy. “We have no way of knowing if we would have collected the same amount of resources had this natural disaster not occurred,” Cornejo says. “In Ecuador, people give money to charity or when they are shocked by an event... whose impact is visible and heart-wrenching. But they are not disposed to contribute to that silent tragedy in which hundreds of thousands of the poor, the unemployed, battered women, children dying of curable illnesses, are immersed. That tragedy is part of every day life and no longer seems to attract attention, much less a commitment arising out of feelings of solidarity with the victims.”

Although the campaign did not achieve its initial goal, the capacity of FEE to enter into agreements with media organizations who donated space and time is viewed as an important new step.

Proceso: Program of Community Economic and Social Development

In 1995, as a result of successful funding negotiations with the IDB, the Foundation launched a new program to support income-generation projects through credit, investment capital and technical assistance. A recognition that FEE could not just count on grant support from external sources to sustain its own grantmaking operations gave the staff the motivation to seek other avenues. The possibility of a major program funded through the IDB became a reality after nearly two years of negotiations and preparations to meet its requirements. The IDB approved a grant of US\$2.5 million which has enabled FEE to begin its Program of Community Economic and Social Development, *Proceso*. This four-year program is designed to improve the quality of life for low-income groups, especially adolescents, women, and indigenous populations. FEE has committed itself to raising an additional \$1 million to complete the program's \$3.5 million budget.

The operating strategies of *Proceso* are based on providing social organizations with credit to initi-

ate or develop small businesses or small units of production, supplying technical assistance to participating organizations, and investing seed capital in small businesses, preferably those administered by young people. With these funds, the Foundation proposes to support business initiatives undertaken by groups of economically disadvantaged individuals. FEE will extend credit, which will have to be repaid with interest, and will demand guarantees. This will be done through an agreement with a bank used to dealing with small-scale lending which will manage the loans. By way of support for these, and other, projects, FEE may also provide risk capital, assuming the role of partner, investor, or some other legal status, depending on each case.

Finally, the Foundation will offer technical assistance and will arrange technology transfers. "By technology," states Cornejo, "I am not referring, obviously, to the latest technologies, which are complex and sophisticated. I am referring to teaching recipients about how to invest credit to do something well, in economic and social terms, and in terms of personal initiative. If we manage to transfer those technologies, those abilities which enable individuals to do things well, we will have greater assurance that the projects will be successful. If they are successful, the recipients will be able to pay back the loans, the projects will provide an income and, as a result, the investments will generate benefits which will be reinvested in other projects."

**Table 6: Operating Budget for FEE
(in US\$)**

Type of Expense	1990	1991	1992	1993	1994
Grants		29,247	886,519	548,607	531,679
Program*	102,333	125,779		199,197	46,467
Technical Assistance**	24,887	56,058	64,240	122,404	266,574
Administration	12,483	10,035	37,626	59,254	75,033
Total	139,703	221,119	988,385	929,462	919,753

* Program refers to programmatic activities other than grantmaking such as research, seminars, conferences and publications, technical assistance, and project evaluation done for third parties for a fee. In 1990 and 1991, program refers to the initial research and feasibility studies.

** Technical Assistance refers to training and consultancy services provided by FEE staff to its grantees in the areas of proposal development, project evaluation, financial management and accounting.

Children and Youth: the IYF Partnership

Although FEE from the beginning had identified children and youth as a priority target population, being a partner with IYF resulted in them having a more targeted program in this area and more resources to invest in it. IYF Program Director O’Laughlin says that linking with FEE was interesting because “we saw an opportunity to help them build their children and youth agenda but at the same time (FEE) was established enough that we didn’t have to start institution building from scratch — they already had a Board, a direction, a plan of action and a structure in place.”

In turn, IYF learned a lot from FEE in terms of developing country contexts, methodologies and partnership. In O’Laughlin’s words:

The partnership has changed in many ways over time. There was a courting period, perhaps the first year, when trust was being developed, common terminology worked out. Each was trying to respond but also demonstrate a certain level of autonomy.

In the early stages there was a lot of discussions particularly around the concepts, missions, methodologies related to children and youth programs. It took time to come to a common agreement on the definition of

children and youth programs and we both moved, no question. There was some training on aspects of the IYF agenda, things

like systems for selecting local programs for YouthNet³ and setting up a selection committee. There was also more hands-on training in fundraising techniques, making

contacts and in proposal writing.

In the give and take that derives from the partnership with IYF, Cornejo estimates that the main contribution of FEE has been to achieve in the short term what for IYF was a medium term goal: “FEE has supported a number of children and youth programs, has broadly disseminated and promoted those themes, has managed to multiply the available resources, has shown creativity in the search for alternative funding and has reached an excellent level of institutional development.”

According to Cornejo, the advantages of this partnership are multiple and mutual:

We are two institutions which started to operate nearly at the same time, and we have developed a lot of trust for each other. ...we share experience, knowledge and methodologies in questions related to children and youth. The IYF made it possible for us to get familiar with other experiences at the international level, and at the same time to share ours with others. Given our common vision regarding our mission in this context, work has been both very productive and mutually enriching.

Communications and Outreach

FEE has a communications unit in charge of ensuring a presence in the national mass media. This unit publishes a monthly bulletin called *Esquela* on the Foundation’s activities, for readers in Ecuador and overseas. Regular attendance at conferences and seminars, and exchange visits provide another channel of communication mechanism with foreign NGOs and donors.

The staff of the Foundation agree that all communications with the public, NGOs, grassroots organizations, official entities, and partners

must be based on openness and transparency. Thus matters that may be considered confidential in other institutions, such as information regarding financial management, are freely discussed in Esquela. FEE has provided a wealth of detail on the operation of its debt swap for development programs and on projects it supports.

According to Diego Cornejo, former coordinator for information and communications, major difficulties in disseminating information have to do with the fact that the media are generally not interested in the activities of NGOs or citizen groups. "In Ecuador," he says, "news revolves exclusively around governmental activities, around those who make or break political figures, or around economic matters. Thus, organizations like Esquel have to work at getting space in newspapers, on radio, in magazines, on TV stations, so that the significance and magnitude of their activities will be recognized by the public."

Financing FEE

Start-up Funding

As discussed, FEE's first funding came in the form of a grant from the Rockefeller Foundation in 1990 to carry out a feasibility study. This grant was also used to draw up the Foundation's incorporation papers, define a number of programs for the first year, and acquire some equipment so that work might begin. When staff submitted a more extensive proposal, the Rockefeller Foundation initially agreed to provide \$250,000, of which \$80,000 was to be used to make grants to community development projects. The remaining \$170,000 was to be invested in FEE's institutional development.

After several months of negotiations, a grant for US\$1.5 million was approved by the Rockefeller Foundation in late 1991. Of this amount, slightly over \$1 million was used to complete a debt swap transaction which allowed FEE to multiply the funds to US\$2.5 million. As per the Central Bank of Ecuador's stipulations, this money was used exclusively to finance FEE's first social development program. Another \$167,000 was FEE's first investment in its endowment and was used to leverage \$500,000 from IYF in accordance with their matching challenge. The remainder (approximately \$292,000) covered operating costs in 1992 and 1993.

In 1991, FEE received funds from IYF for youth programming and for institutional strengthening, beginning a relationship which continues today.

Funding Sources in the First Years

From 1991-1994, FEE's primary support came from private US foundations, European

donors, the proceeds of the debt swap, and small amounts from local donors. Per year, FEE's sources of income are as follows:

Table 5: Funds Received by Year* for Grants and Programs (in US \$)

US Donors	1990
1991	1992
1993	1994
Total	
Rockefeller Foundation**	180,000
250,000	292,333
	722,333
International Youth Fdn.	
40,000	16,347
403,225	111,264
570,836	
The Moriah Fund	
50,000	40,000
90,000	
Botwinick Wolfensohn Fdn.	
20,000	
20,000	30,000
70,000	
The John D. & Catherine T.	
MacArthur Foundation	
25,212	21,870
	47,082
Cohen Family Foundation	
2,500	
	2,500
Proyecto Ashoka	
8,100	8,100
Individuals	
	2,000
2,000	
Other Foreign Donors	

Forestry Development		3,200	
	Program	UNICEF	
(Canada)			33,717
15,000	9,945	40,400	74,117
24,945		UNDP	
ICCO (Holland)		5,800	5,800
16,566	16,566		
		Local Donors	
Fukuoka Citizens (Japan)		Central Bank (debt swap)	
		559,439	467,149
2,200	2,200	460,057	1,486,645
Manos Unidos (Spain)		Archdiocese of Cuenca	
			138,462
27,724	27,724	138,462	
Fundación CODESPA (Spain)		Conaupe, Insotec-CEOP	
3,200		2,371	

**Table 7: Endowment Fund Structure
December 31, 1994**

Sources	Amounts
Foreign	
Rockefeller Youth Foundation (1992)	166,667
International Youth Foundation (1992)	500,427
International Youth Foundation (1994)	146,682
Subtotal	813,776
National	
Contributions to FEE's constitution	95
Donations (1992-1994)	76,858
Subtotal	76,952
Grand Total	890,728

	2,371
Totals	180,000
340,083	958,189
1,114,498	702,111
3,294,881	

* The amounts shown are on a cash basis. As many grants cover more than one fiscal year, they do not correspond directly to the amounts spent by FEE each year.

** The amount shown as the 1992 donation from Rockefeller reflects only the amount used for operations. It does not include the \$1,041,000 from Rockefeller used for debt swap since those funds are reflected in the line for funding from the Central Bank (debt swap).

Financial Growth

The growth in FEE's budget and changes in allocation over the first five years are shown below.

Through 1992, the Foundation's support was mainly in the form of donations to its grant-making programs. According to Cornejo, "It is very difficult to obtain funds for institutional development." Only the first two grants from the Rockefeller Foundation (1990 and 1991), those of the MacArthur Foundation and US\$ 28,347 from IYF funding have been used to finance administrative costs.

FEE grew quickly in the first few years, increasing its budget from \$139,703 in 1991 to \$998,385 in 1992, largely through the Social Development Program negotiated with the debt swap transaction. FEE's grantmaking was the largest in 1992, when the Program was initiated. As some of those projects ended, grantmaking decreased slightly. FEE's expectation of being able to continue grant funds was not fulfilled and, beginning in 1993, the organization began taking on contracts to earn fees. These contracts for research and evaluation services came from UNICEF, UNDP, the Ashoka Foundation, and the Archdiocese of Cuenca. This type of funding is a growing portion of FEE financing. In 1993 and 1994 FEE's budget

decreased slightly, but during those years the Foundation worked hard at developing other funding sources while continuing their search for grant funds.

1995 was expected to be a year of growth, with the start up of the credit and investment project with IDB funding. As a result FEE's 1995 budget was expected to rise to \$1,600,000, a significant increase from \$919,753 in 1994.

Fundraising Strategies

FEE has four basic funding sources: international donors, debt swap, local donors and endowment income. International donors and the debt swap were critical at the start of FEE's life, while later more emphasis was given to local fundraising. The establishment of an endowment that would provide significant amounts of income was part of Esquel's initial strategy but it was found to be more difficult to implement than originally thought. However, it continues to be a long-term goal.

Strategies with International Funders

In order to receive resources from abroad, the Foundation has based its efforts on a process which begins with gathering and maintaining up-to-date data on potential donors, their priority areas, application dates and procedures, and other information. Methods for approaching US or European donors vary. The first step may involve sending a cover letter and a project profile or a visit. Staff members agree that the most effective method is personal contact which allows for a direct presentation of the Foundation and a dialogue on priorities and strategies. However, this is costly and not used on a regular basis. FEE's staff has taken

advantage of invitations to conferences, seminars and workshops in other countries in order to visit potential donors. Personal contact with donors has been facilitated by FEE's international partners such as IYF and Synergos.

"The next step," according to Cornejo, "is that of cultivating the relationship established. We send a concrete proposal, or invite members of the donor organization to visit us on site, to see what we do, how we are implementing projects....I am convinced that donors channel resources not so much to specific projects as to organizations with the capability to implement these [projects]....Thus, the importance of personal contact, on the basis of which the donor can make an evaluation, not only technical but also ethical, of those who will carry out the programs he/she is going to finance."

The major disadvantage of foreign grants has been their inconsistency in terms of availability, since what the Foundation proposes does not always directly coincide with donor priorities. Because of these constraints, and because funding amounts from US and European foundations tend to be relatively small, FEE has been looking to international agencies for larger grants that are more flexible and long-term. The difficulty with this is that such negotiations are very complex and time-consuming.

In the course of research to identify possible sources of funds in the "donor market," and thanks to its contacts with IDB staff both in the country and in Washington, FEE discovered that a significant amount of IDB financing assigned to Ecuador had been frozen for some twenty years. Such funds are disbursed by the IDB only after it receives proposals for projects

which include realistic guarantees of viability and which are not objected to by the Ecuadorean government.

In late 1992, FEE staff initiated negotiations with national authorities and the IDB. After presenting an extensive proposal, FEE was visited by a group of international consultants who evaluated the capacity of the Foundation to implement the projects in question. After nearly two years, IDB came through with a grant of \$2.5 million.

Established relationships with agencies such as UNICEF and UNDP lead to contracts for services provided by FEE, which charges an overhead percentage that contributes to general operating costs.

The Debt Swap Mechanism

The foreign debt crisis that took place in developing countries in the 1980s, and the consequent need of international creditor banks to reduce their financial risks, led to a gradual appearance of a secondary market for foreign debt. Bonds for that debt were negotiated at a value lower than their face (nominal) value and discounts were set based on expectations of economic performance in each country as well as its compliance with foreign obligations. In that context, several innovative schemes were adopted to convert debt, in addition to the conventional refinancing strategies which basically sought to obtain fresh resources and defer the financial terms acquired in the foreign debt agreements. The aim was to achieve longer grace and amortization periods and reduced interest.

In the late 1980s, Ecuador initiated a process of capitalizing its own external debt through a mechanism known as the debt swap, which

was used until 1992. According to regulations established for this purpose, the Central Bank of Ecuador was authorized to exchange, for negotiable bonds, amounts of debt purchased by external donors and donated to local nonprofit foundations or organizations operating legally in Ecuador with the objective of financing social welfare activities. The debt acquired was exchanged for negotiable local bonds at 50%

of their face value, at a six-month adjustable interest rate. Regulations established a per-institution limit of US\$5 million face value, or approximately US\$1 million in cash value, assuming that Ecuadorean external debt could be purchased at 20% of its face value in international financial markets.

To apply for a debt swap, social welfare institutions had to submit to the Central Bank a detailed project plan, which included a description of projects to be funded, specific focus, goals, execution area, technical and operating methodology, budget structure, general plan for investments and schedules. Once the Central Bank pre-qualified the project, it was sent to the National Development Council, which decided if it fit the parameters of a social project. The Central Bank Manager's Office for Foreign Debt made the corresponding financial analysis and submitted it to the Monetary Board so that it might rule on the operation. After approval, the beneficiary entity was able to arrange the purchase of an amount of Ecuadorean foreign debt on the secondary market.

Beneficiaries had to submit audits prepared by independent auditing firms selected by the Central Bank. If funds obtained through a debt swap were diverted to activities other than those originally stated, the Central Bank was authorized to take the appropriate legal actions. Work schedules and programs were

approved at the signing of the agreement between the beneficiary institution and the Central Bank

and could not be modified without explicit bank approval.

In 1992 the Foundation purchased US\$5 million face value of Ecuadorean foreign debt through this mechanism, using the funds provided by the Rockefeller Foundation. This provided it with US\$2.5 million of negotiable bonds, used to finance FEE's first social development program.

Local Fundraising

Local fundraising has been a constant challenge for FEE, whose experience in encouraging local support demonstrates that philanthropy is often confused with charity. The experience of its "Lend a Hand to Your Ecuador" campaign as described in the previous chapter illustrates the difficulties. In discussing the issue of local fundraising, the 1991-92 Annual Report stated:

Unfortunately, philanthropy has generally been very weak in Ecuador, as is the case in many other Latin American countries.... Those sectors of civil society who might have been willing to invest in social development efforts have had little opportunity to do so. Not only have recipient organizations been relatively nonexistent, but tax deductions and other incentives for making donations have been few and far between....The challenge, then, is to create the conditions that not only offer the opportunity to participate financially, but also provide sufficient incentives to do so.

FEE has offered a variety of options to encourage local donor involvement. One such option is the issuance of "share certificates"

(*certificados de aportación*) carrying values of approximately \$5, \$50, and \$500, introduced in 1992. By purchasing such certificates, the owner owns “shares of stock” in FEE for a three-, five-, or ten-year period. This investment remains the property of the investor but FEE has use of the funds. At the end of life of the share, the purchaser has the option of withdrawing his/her investment (getting back the original amount), renewing it for another term, or donating it to FEE. It was hoped that such a mechanism would draw givers who might not be comfortable donating funds outright, since they would have the option of getting back their money if they were not satisfied with FEE’s performance. But very few certificates were sold, which Cornejo attributes to the fact that the FEE was not well known at the time and that the certificates were not widely promoted.

Another effort tried by FEE was to raise funds among Ecuadoreans living in the US, particularly New York. With the help of Synergos and EGF, FEE hosted an informational reception, which produced a couple of small donations. Again, this was early in the life of the Foundation, which had not yet established a track record. Private and corporate donors can also get involved by providing resources for specific community projects which are matched by those invested by Esquel and the communities themselves. Esquel organizes information forums for potential donors in the hopes of encouraging a new tradition of philanthropy in Ecuador.

Funds donated to FEE’s endowment offered an especially attractive 3:1 match by IYF, a considerable way of making a donation go further. Using this leverage, almost US\$77,000 was raised by December 31, 1994, for FEE from Ecuadorean individuals and companies.

This, however, was much less than hoped for.

In 1995, FEE established a scholarship fund for children and youth whose parents had been killed or wounded in the war between Peru and Ecuador earlier that year. This stimulated a number of local contributions, once again, in response to an emergency situation. FEE hopes that such focused fundraising will be more effective than general fundraising locally.

However, it is worth noting that the Foundation has garnered a lot of counterpart funding from the communities and NGOs with which it works. Thus, it has been able to make its resources go a lot further. As Cornejo says, “One should not forget about the support we get from the grassroots. In Ecuador, solidarity with development, in financial and material terms, lies mostly in the lower income populations.”

FEE continues to be committed to raising an increasing amount of its funding from local sources. Although they have not raised as much as hoped, staff have learned a lot in the process and have a much better sense of what works and what doesn’t. The Foundation is in the process of negotiating a grant from US foundations to be able to dedicate more time and energy to increasing awareness and involvement of Ecuadorean society in its work. With these funds the Foundation is planning to do research to better understand current giving habits in Ecuador and design a strategy to cultivate greater local philanthropy.

Part of FEE’s strategy from the beginning was a search for a minimum degree of financial self-sufficiency. As stated in the financial feasibility study, with the establishment of the Basic Trust Fund (endowment) FEE hoped to create a stable funding source to allow the implementation of selected projects and guar-

antee the Foundation's autonomy in decision-making and management tasks.

Experience has demonstrated that the goal initially established for that purpose — US\$25 million over five years — was not realistic. Earnings generated from the investment of the US\$25 million were expected to be up to 10% per year, allowing for recapitalization of a larger portion of endowment income and financing of social development programs.

Five years after its founding, a small endowment has been established, which has a value of almost US\$900,000. However, it produces income far below that which is needed to cover costs of the Foundation's functioning.

The initial creation of the endowment was possible as a result of an agreement with the International Youth Foundation, which was prepared to provide up to \$1.5 million on two conditions: that resources would be used strictly to build the endowment while income generated by the investment was dedicated to programs oriented to youth and children; and that, for each dollar FEE raised in country, IYF would contribute three to the endowment.

It has not yet been possible to meet the second condition fully, and as a result, the funds disbursed by the IYF have not reached the expected total. An exception was made with the first \$500,000 which was matched with \$167,000 from the Rockefeller Foundation grant. The agreement with IYF stipulated that profits generated by the endowment fund are to be used to increase the fund and finance projects for children and youth. No operating costs can be covered by endowment income.

As the endowment is considered irrevocable, provisions have been included in the by-laws

of the Foundation stipulating that upon its dissolution for whatever reason, none of its members will have rights to any part of its assets. Rather, all of the Foundation's property, including the endowment, will be donated to Ecuadorean

private, nonprofit entities with objectives similar to its own, thereby ensuring that these funds will continue to serve their original purpose, i.e., continuation of the process of social development within Ecuador.

Fund Investment

The Executive President makes decisions as to the investment of funds from the endowment, with advice from the Board's financial committee. The management strategy for the endowment is based on two criteria:

- That the principal will not be touched for any reason; and
- That a percentage of endowment earnings at least equal to the rate of inflation where the funds are invested will be recapitalized.

When the fund was established, investment conditions in Ecuador were adverse. In order to protect the value of the principal from erosion due to inflationary pressures and devaluation and also to ensure its income-generating capacity and growth, a majority of endowment resources were, until mid-1994, invested in hard currency investments abroad. FEE contracted with an investment manager in the United States, stipulating that investments be selected on the basis of multiple criteria involving profits, terms and security. As a result, the endowment has been invested in US government bonds and the stocks of several foreign companies.

Since mid-1994, FEE has invested part of its

endowment funds in Ecuador. It was determined that investing in national currency was more profitable at that time than doing so in dollars either within the country or overseas. FEE invests endowment funds in different banks and for periods not exceeding six months.

Financial Management

The overall budget for projects plus that for the institution's operating costs constitutes FEE's total budget. According to recent reports of the finance and administration unit, FEE's administrative costs represent 5.5% of the overall budget. In general, a percentage of funds are used to finance technical assistance and project audits. According to Salazar, who was formerly FEE's director of administration and finance, "This percentage varies according to the source of funds. For some projects, we rely on the investment of available balances until funds have been disbursed. Disbursements are controlled by a calendar established according to technical criteria, so that what remains are the balances on future disbursements, and these are applied to investments. This provides some income. But we generally count on a percentage between 8 and 10% for technical assistance and auditing expenses."

According to Salazar, the main challenge in financial management has been covering operating costs. The percentage which FEE applies to projects does not provide enough for operating costs, thus, the Foundation must complement its income. This has been possible up to now through grants received expressly for that purpose from some donors.

Deloitte & Touche to audit its financial records. The firm presents an annual report of FEE's total institutional finances and also undertakes bi-annual audits of the use of the resources from the debt swap negotiated in 1992.

For purposes of control, the finance and administration unit prepares monthly budget reports, which detail both income and expenses. These reports provide up-to-date information on funds received and the manner in which they have been invested, as well as information on operating expenses. The budget report also facilitates keeping track of all project disbursements.

The control and administration of funds received by FEE takes place at two levels. Funds received from donors are administered internally through the Foundation's finance and administration unit. The appropriateness of procedures is guaranteed by a set of norms and instructions approved by the Board of Directors and reviewed periodically by the financial commission. The Executive President reviews the financial status reports on a monthly basis, and then passes these on to the Board of Directors for an additional review.

The second level relates to the management and control of resources assigned to projects, within the framework of agreements drawn up by the Foundation with its grantees. To guarantee the appropriate administration and control of these funds, FEE organizes training workshops for those who will assume these tasks, and has drawn up a series of instructions and forms through which constant control is maintained over projects and resources.

Auditing and Financial Control Procedures

FEE has contracted the international firm of

Conclusion

In its short life, FEE has become a respected entity striving for empowerment and social development for Ecuador's poor. It has developed an excellent track record for managing and funding community development projects. But, as general poverty continues to grow, FEE has had to readjust its strategies to find a way to transform Ecuadorean society. According to Yriart, "FEE has met the expectations in terms of advancing the goals it set out to meet, but its funding structure and program strategies have developed in a very different way than what was initially planned."

Synergos's Dulany notes that FEE has "met or exceeded expectations but developed in a different way than planned. There were higher hopes in the beginning of establishing a large endowment — but later they realized this was harder than thought and would take a lot longer. But the hope for an institution with a really strong track record was so fulfilled that eventually large amounts of annual funds have been channeled to it, replacing income that would have come from a large endowment."

Thus, FEE continues to face the challenge of becoming financially sustainable in order to maintain a consistent level of grantmaking. For the Board and the Executive President, the chief long-term goal is to reach financial self-sufficiency to enable FEE to operate with greater independence. According to Marchán, "the model could be that of some foundations in Colombia, that even have banks, enterprises, and financial companies. It is possible," he says, "to carry out some for-profit financial operations without contradicting the mission of a nonprofit organization [such] as FEE. It would not contradict our mission since funds are not going to private pockets but to financing social and economic development projects."

Board member Alexandra Kennedy believes

that FEE has played an important role in Ecuadorean society not only through financial support of projects, but also by "[steering] us towards actively shared responsibility in the face of poverty." FEE's main programmatic achievements, says Kennedy, have been in identifying big problems in small communities; understanding that training and its multiplier effects at the grassroots level can bring about unforeseen changes; and weaving a web of connected actions that produce immediate results.

The fact that FEE has support from grassroots communities and NGOs who are interested in working in partnership to share project costs means the Foundation is not entirely dependent on outside funds. The Proceso grant from IDB

is likely to contribute to sustainability, as FEE administers the credit and investment project for four years. If they are managed well, FEE will have contributed greatly to community development and to its own funding base. Once Proceso concludes in 1999, FEE plans to place the proceeds from the recovery of loans into its endowment.

Despite the difficulty in raising funds, FEE's program priorities have remained virtually unchanged since activities were initiated. "The fact that we have remained firm in our principles, that we have not molded our specific priorities to this or that funding source in order to have access to resources, has been significant," Cornejo says. "In five years we have consolidated our idea, and that has proved to be a good thing....We continue to be committed to a mission that has turned out to be valid....we know what we owe our existence to, what we want, what we want to be identified with."

FEE has been also very rigorous in the control of operating expenses. With its internal control mechanisms and independent audits, the

Foundation has managed to present to actual and potential donors an image of seriousness in its handling of funds. "This is something basic," says Boris Cornejo, "because it is not just a matter of presenting viable projects and of managing in a straightforward fashion the money one is going to receive, but of proving that one's institution is serious and solvent in terms of internal management.

And that is a key factor in attracting the resources on which the economic sustainability of any organization is so dependent."

"On the basis of this experience," he states, "we are optimistic in regard to the prospects for obtaining funds in the future. We have passed the most difficult tests, and the results obtained indicate that, in effect, we have the ability to do things well."

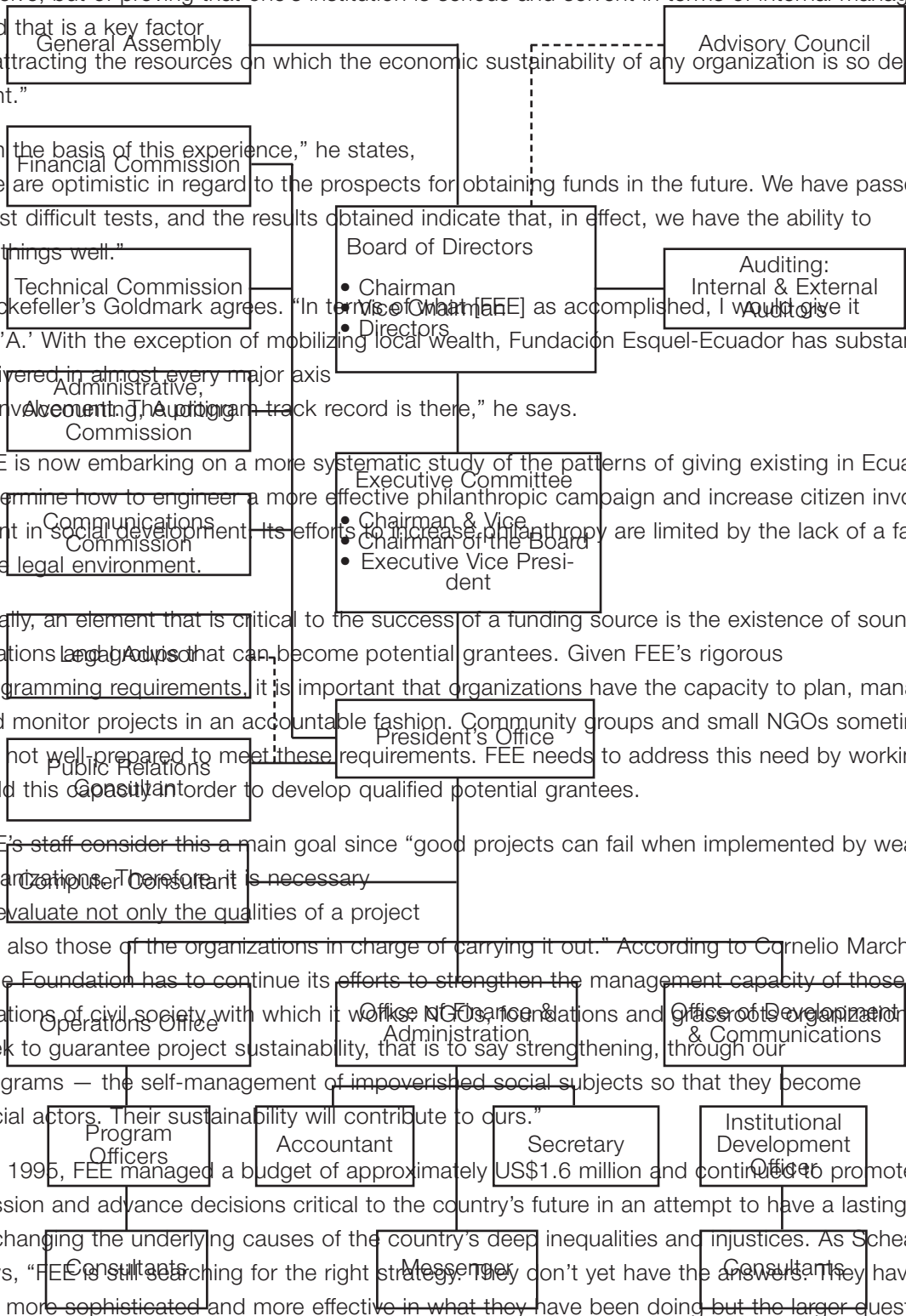
Rockefeller's Goldmark agrees. "In terms of what [FEE] has accomplished, I would give it an 'A.' With the exception of mobilizing local wealth, Fundacion Esquel-Ecuador has substantially delivered in almost every major axis of investment. The auditing track record is there," he says.

FEE is now embarking on a more systematic study of the patterns of giving existing in Ecuador, to determine how to engineer a more effective philanthropic campaign and increase citizen involvement in social development. Its efforts to increase philanthropy are limited by the lack of a favorable legal environment.

Finally, an element that is critical to the success of a funding source is the existence of sound organizations and advisors that can become potential grantees. Given FEE's rigorous programming requirements, it is important that organizations have the capacity to plan, manage, and monitor projects in an accountable fashion. Community groups and small NGOs sometimes are not well-prepared to meet these requirements. FEE needs to address this need by working to build this capacity in order to develop qualified potential grantees.

FEE's staff consider this a main goal since "good projects can fail when implemented by weak organizations. Therefore, it is necessary to evaluate not only the qualities of a project but also those of the organizations in charge of carrying it out." According to Cornelio Marchán, "The Foundation has to continue its efforts to strengthen the management capacity of those organizations of civil society with which it works. For this reason, we have created the Office of NGO Finance & Administration and the Office of Development & Communications. We seek to guarantee project sustainability, that is to say strengthening, through our programs — the self-management of impoverished social subjects so that they become social actors. Their sustainability will contribute to ours."

For 1995, FEE managed a budget of approximately US\$1.6 million and continued to promote discussion and advance decisions critical to the country's future in an attempt to have a lasting impact in changing the underlying causes of the country's deep inequalities and injustices. As Schearer says, "FEE is still searching for the right strategy. They don't yet have the answers. They have gotten more sophisticated and more effective in what they have been doing, but the larger questions



have not yet been resolved — that of how to be an agent of social change that transforms the reality of Ecuador.”

Sources

FEE, annual reports and program documents, various, 1989-1995

Interviews

Peggy Dulany, President and founder, Synergos Institute

Bruce Schearer, Executive Director, Synergos Institute

Roberto Mizrahi, former President of Grupo Esquel network

Peter Goldmark, President, Rockefeller Foundation

Juan Felipe Yriart, former President Esquel Group Foundation

Carol Michaels O’laughlin, Director of Programs International Youth Foundation

Luis Gómez Izquierdo, Chairman of the Board, FEE

Cornelio Marchán, FEE founder and current Executive President

Boris Cornejo, Director of Development, FEE

Betsy Salazar, former Director of Administration and Finance and current Program Director. FEE

Modesto Rivas, FEE founder, staff member, consultant for youth-oriented projects

Diego Cornejo, former Technical Coordinator of Information and Communication and current consultant, FEE

Santiago Quevedo, FEE founder and former Program Director

Gustavo Larrea, former Technical Coordinator for Projects, FEE

Santiago Ortiz, Secretary General of the Christian Youth Association (ACJ), grantee.

Gonzalo Códova Galarza, Nila Velásquez and Alexandra Kennedy, Board members, FEE.

Addendum - FEE Today

The years 1995 and 1996 have been important in the development of FEE. Ecuador has undergone difficult times, including an armed conflict with Perú with the resultant high human, economic and social cost; a general election and referendum on constitutional reforms; the flight of the Vice President of the country and the suspension of the President of the Supreme Court; prolonged energy cuts; plus a chronic absence of leadership; a crisis of values evidenced by corruption in the highest ranks of government; and an equally serious crisis of representation at all levels. Poverty increased, social inequality intensified, and the distrust of the population toward the effectiveness of democracy and the political system deepened.

In response to this situation, FEE increased its activities and programs in favor of the most vulnerable sectors of society, as well as its activities related to encouraging reflection and dialogue among different sectors of civil society and government, thus trying to contribute to the formation of a new political culture.

In 1995 and 1996, FEE's programming activities increased significantly primarily through the start-up of three new programs: PROCESO: Promotion of Social Responsibility (formerly the Promotion of a Culture of Local Philanthropy) and Sustainable Human Development. The three other existing program areas, with new names, are: Development of Children and Youth (grantmaking, youth forum, and scholarship funds), Support to Community Management (grantmaking and technical assistance to various community development efforts) and the Citizen's Forum (for building consensus and dialogue). As a result of these new programs, FEE's staff has also increased.

PROCESO, funded with a grant from the Inter-American Development Bank, is now in full swing. PROCESO offers three services: venture capital, credit and technical assistance and training. Venture capital has sparked tremendous interest, being an innovative mechanism that wasn't previously available in Ecuador for financing small businesses. As of the end of 1996, PROCESO had made venture capital investments in the creation or expansion of five legally constituted small businesses and thirteen additional projects have been approved and are on their way to being implemented. In terms of credit, nearly 1500 loans were made in these two years, in collaboration with established financial institutions. These were principally made for agricultural projects mostly on the coast of Ecuador, although this service will be expanded to include credits for other sectors as well. In support of these projects and others, PROCESO carried out nearly 300 training and technical assistance workshops and seminars related to small business management in 16 provinces, involving close to 7,000 individuals.

The Promotion of Social Responsibility Program began in earnest in 1996 with support from the CS Mott Foundation and the Rockefeller Foundation. 1996 was dedicated primarily to researching Ecuadorian citizen's and business attitudes and practices with respect to social responsibility, using techniques such as household surveys, focus groups and interviews. A strategy for promoting social responsibility, based on the results of the study, is underway.

A comprehensive program began in late 1995 called Sustainable Human Development with support from the Royal Embassy of the Netherlands, who provided US\$925,489 for the first year of the program. A similar amount

of funding was renewed for an additional year to continue and expand its activities in 1997. The Program consists of 22 income-generating and social development projects which, while managed independently, share experiences and participate jointly in training workshops and seminars held on common issues such as health, environment, gender issues, handicrafts, small business management, and alternative credit management. The Program is focused on rural and marginalized urban populations in the Southern region of the country (including the provinces of Azuay, Loja and El Oro) and supports initiatives in the areas of education, health and alternative work opportunities for women, children and youth.

The Children and Youth Program continued to expand its activities especially in youth-managed income generation projects, Youth Forum activities, and with the new Youth Talent Scholarship Fund, launched at the end of 1995. FEE is about to join forces with UNICEF in a large project to address the educational and health needs of poor children.

FEE has strengthened its position as a valid and respected interlocutor for civil society and is recognized increasingly as a representative of the sector. For example, FEE participates as the NGO member for Quito's City Assembly. FEE's projects, including the Citizen Forum activities, are covered frequently in the country's main newspapers.

As evidence of FEE's continued growth, FEE's 1996 budget reached over US\$ 2 million. New international donors have been added to the list of FEE's supporters in these two years, including several grants from European governments and NGOs. Local donations have also increased both at the corporate and individual level. In addition, FEE's endowment has also

grown to be, at the end of 1996, over \$1.5 million by taking advantage of IYF's matching challenge to local donations and through solid investment management.

Cornelio Marchán
Executive President, FEE
Quito, March 1997

Annex 1: Organization Chart

Annex 2: FEE's Founding Group

Cornelio Marchán - economist, former secretary general of the Consejo Nacional de Desarrollo (CONADE). He has been a member of the Junta Monetaria (the main official organism in charge of monetary policies) and of the Boards of Directors of the Banco de Desarrollo, the Corporación Financiera Nacional and Petroecuador; staff member of several international organizations, and an international consultant for social development.

Boris Cornejo Castro - economist, Master degree in Economic Development (Cambridge, England). He was a member of the Junta del Acuerdo de Cartagena's international staff.

He has been a consultant for the United Nations, the Inter American Development Bank, the World Bank and the Sistema Económico Latinoamericano (SELA).

Betsy Salazar - economist, expert in community programs, regional corporations and rural administration programs. Consultant for international organizations.

Modesto Rivas - economist, expert in planning and social development. He has been a consultant for UNDP and the Inter-American Development Bank, and was a member of CONADE's staff.

Santiago Quevedo - sociologist, Chilean, academic in several universities. Expert in social development and social policies. Consultant for OAS.

Luz Elena Burbano - economist, Masters in social development (University of Navarra, Spain). She had worked in development pro-

jects for the Central Bank of Ecuador and the Ministry of Social Welfare.

Nelson Herrera - economist, expert in rural development, graduated at the Sorbonne (Paris, France). Consultant for several organizations.

César Jaramillo - civil engineer, expert in rural infrastructure and development. He had worked at the Central Bank and the Secretaría de Desarrollo Rural and has been consultant for UNDP and several organizations in north-eastern Brasil.

Marco Jaramillo - economist, expert in rural development and planning. He worked in the Junta Nacional de Planificación and the Consejo Nacional de Desarrollo (CONADE).

Hugo Barber - sociologist, Argentine. Consultant for the Junta Nacional de Planificación and the OAS. Expert in social problems.

Annex 3: FEE's Social Development Program

Listing of Projects in Program 1992-1995

- **Attention to Street Children:** Improvement of the conditions of life for working, street children and their families living on the outskirts of Guayaquil, based on education and productive activities. Has been confronted with organizational difficulties inherent in NGOs and in the community participation but corrective measures have been taken. 14,000 beneficiaries. NGO: DNI
- **Attention to Street Girls:** The granting of alternative, more dignified ways of life for girls and female adolescents living on the streets of Quito. Personal attention to their education, integral promotion, technical training and social reintegration. Brought concrete benefits to abandoned young women. Generated a model for intervention in extreme cases. 540 beneficiaries. NGO: Casa Laura Vicuña
- **Austro: Construction with Raw Earth:** The use of new technology for construction with raw earth. Generation of jobs in depressed areas located in the Northern Sierra of Ecuador. Strengthening of processes of local management. Suffered a setback due to the emergency situation which arose in the Austro. Accomplished that which was intended. 3,100 beneficiaries. NGO: Habiterra
- **Azuay: Peasant Women:** Training of indigenous women in Azuay in alternative forms of production and employment in order to improve family income and peas-

ant organization. The project allows the generation of work experience directly with

a popular organization. 2,520 beneficiaries.

NGO: CPOCA

- **Bilingual Self-education:** Supporting Quichua education through the production of educational videos with a direct benefit to 12 communities located in 11 provinces of the Sierra and Amazon regions. Suffered a considerable setback but will soon complete all the foreseen objectives. 42,000 beneficiaries. NGO: Corporación Educativa MACAC
- **Bilingual Teaching Material:** Revival of Quichua culture and the strengthening of teaching and learning processes for intercultural bilingual education. The material produced is now available and considered a great benefit. 17,550 beneficiaries. NGO: CEDIME
- **Building Block Factory:** Prevention of juvenile delinquency and the reinsertion of youths into the family and society. Installation of a self-managed enterprise for the production of cement blocks in the South of Quito. The factory produced less than was expected. The possibilities are being studied for the transfer of the factory to the community. 350 beneficiaries. NGO: FUPRAC
- **Center for Educational Reinforcement:** Integral improvement of the education of poor children in a slum area of Quito, aimed at preventing the use of drugs and supporting recreational activities. The project achieved all the objectives and produced extensive documentation for further use. 3,500 beneficiaries.

NGO: FACE

- **Ceramic Museum:** Help to the ceramic artisans of the Austro, with training, exhibitions showrooms for products, and the provision of equipment for the commercialization of the products. Advancing without problems. Initiatives have been taken to carry out complementary activities which will improve the original proposal. 7,000 beneficiaries. NGO: Fundación Paul Rivet
- **Child Stimulation:** Overcoming the deficiencies in child stimulation in poor families from the marginal slums of Guayaquil, through the improvement of the physical and psychosocial environment of the population. Has generated an exemplary model for intervention in a previously unattended area. Is proceeding with great success. It is generating multiple complementary proposals. 21,300 beneficiaries. NGO: Universidad Católica Santiago de Guayaquil
- **Community Action in the Slums of Machala:** Helping organizational processes and popular management in order to improve conditions of life. Environmental health, the creation of micro enterprises and organizational strengthening in the El Oro province. Satisfactorily completed what was intended and has been fruitful in producing complementary proposals. 26,145 beneficiaries. NGO: ACJ
- **Community Kitchen and Training:** Expansion and improvement of the infrastructure and activities in a community kitchen (providing food for poor people) in the outskirts of Guayaquil. The project