

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

Foundation for the Philippine Environment

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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

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Glossary of Acronyms

AGF	Action Grants Fund
DENR	Philippine Department of Environment and Natural Resources
DOF	Department of Finance
EAP	Expert Advisory Panel
FPE	Foundation for the Philippine Environment
IGP	Interim Grants Program
MOU	Memorandum of Understanding
NGO	Nongovernmental organizations
NRMP	Natural Resources Management Program
PBSP	Philippine Business for Social Progress
PCJC	Philippine-Canadian Joint Committee
PDF	Philippine Development Forum
PDME	Project development monitoring and evaluation
PO	People's organization
RAC	Regional Advisory Council
RCC	Regional Consultative Council
RSA	Rapid site assessment
SEC	Philippines Securities and Exchange Commission
USAID	United States Agency for International Development
WWF	World Wildlife Fund

Synopsis

Formation

The Foundation for the Philippine Environment (FPE) was legally established in January 1992 through the quadrilateral efforts of environmental and development NGOs in the Philippines and the US and government in each country (principally the US Agency for International Development and the Philippine Department of Environment and Natural Resources). This process included extensive civil society consultations in the Philippines — eight formal regional consultations were held and national conferences of eight major NGO networks were also used to obtain opinions and ownership of the Foundation within sector. In total, over 300 NGOs and two dozen academic institutions were engaged in the process.

Some tensions arose in the first year of the Foundation over its program focus — USAID pushed for an emphasis on biodiversity conservation, while many Philippine NGOs felt that the focus should be more locally determined. Ultimately the program embraced both biodiversity conservation and sustainable development.

The founders of FPE also consulted widely with international actors and conducted a study tour on philanthropy, funded by the Ford Foundation, to expose the new organization's initial governing board to US organizations with expertise in foundation formation, governance and grants management.

Financing

The process of creating FPE's endowment took over three years — from the beginning of negotiations between the governments in 1991 to the 1994 turnover of the completed debt swap to the two civil society organiza-

tions that led the creation of FPE (WWF - the World Wildlife Fund and the Philippine Business for Social Progress, a foundation created by Philippine corporations). Foreign assistance of about US\$18 million was used to purchase debt valued at about US\$29 million. Currently, FPE's endowment is worth US\$23 million.

FPE has been careful not to compete for funds with Philippine NGOs, viewing itself as a fund-facilitator, not fundraiser. It turned down an opportunity for funding from Switzerland that it felt might better go to other organizations.

Governance

FPE has a Board of Trustees and three regional advisory councils (RACs). The board is the sole policymaking body of the Foundation and is composed of eleven members including six regional representatives, four "at large" representatives and a representative of WWF. The government of the Philippines is represented in an ex-officio capacity. The board has an executive committee and advisory committees on finance and administration, governance, and program development.

The three RACS with a total membership of about 60 people ensures that the Foundation receives good proposals from the major regions of the country and avoids the dangers of a Manila centered organization.

Programs

In 1993, FPE disbursed over US\$1.5 million in grants through a variety of grant mechanisms that include responses to proposals and proactive grants the Foundation makes on issues it deems of importance.

FPE also acts as a fund facilitator, generating

additional financial resources and providing financial linkages between donors and Philippine NGOs and people's organizations. As a catalyst for cooperation, FPE is active in encouraging international and local cooperation among communities, governments, business groups, and NGOs.

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 U.S. 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 organiza-

tions. 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 foundations and other financ-

ing 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.

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Genesis and Origins

Background

An archipelago consisting of approximately 7,100 islands, the Philippines is endowed with a wealth of natural resources. But decades of neglect have resulted in their rapid depletion and degradation. The Philippine Department of Environment and Natural Resources (DENR) estimates that only 20% or six million hectares of the country's total land area remains forested, with deforestation continuing at a rate of 100,000 hectares annually. The DENR estimates that there are over 15,108 species of plants and over 23,993 species of animals in the Philippines. This biodiversity is threatened, with over twenty-five species of wildlife in danger of extinction from illegal trafficking as well as the destruction of natural habitats.

Mineral resources are in danger of depletion as well. Unrestricted mining operations result in extraction of over 60 million metric tons of ore and the loss of 50 million metric tons of nutrient-rich topsoil every year. The rampant use of destructive fishing methods such as dynamite and fine-meshed nets by both subsistence fishermen and large commercial operations, contribute to a declining catch and the destruction of coral reefs. The extensive conversion of mangrove forests into fish-pond areas also contributes to marine life degradation. Urban centers also are glaring examples of environmental degradation. Concentrations of total suspended particulates, which are the result of massive air pollution, now exceed World Health Organization standards by 200% (DENR, 1993).

In a joint effort to address the escalating problem of environmental degradation, the Foundation for the Philippine Environment (FPE)

was organized and formally established in 1992. As a result of extensive negotiations among the United States Government, the government of the Philippines, coalitions of nongovernmental organizations (NGOs) in the Philippines, the Philippine Development Forum (PDF), a lobbying effort based in Washington, DC, and the World Wildlife Fund (WWF), the FPE was set up through a unique “debt swap” mechanism that created an endowment to fund conservation activities.

The genesis of this effort dates to November 1989, when a group of ten Filipino representatives from the private voluntary sector participated in an “environment train” traveling from San Francisco to Washington, DC. The project was funded by the Ford Foundation and a private group called Gateway-Pacific. In Washington, the group was invited to be the nongovernmental counterpart to an official Philippine mission, headed by President Corazón Aquino, that was seeking development assistance from the US Government, and to comment on the Philippine Assistance Plan being formulated.

At that time, the PDF, an organization of mostly church-based groups which focused on human rights and the issue of US military bases in the Philippines, was lobbying the US Congress on foreign aid. The Filipino NGO representatives met up with the lobbyists, and the PDF, taking the opportunity to expand its constituency, became the overseas arm for an advocacy campaign to support development assistance which incorporated environmental concerns.

The Filipinos returned home and formed a new environmental conglomerate, the Green Forum Philippines, an umbrella organization of environmental NGOs. It provided a linkage

with the PDF in Washington, DC. Maximo Kalaw, a participant on the environment train, used contacts in the Senate Foreign Affairs Committee in Washington to help the lobby ensure that official US development assistance for that year would be allocated for the use of NGOs in the Philippines for environmental protection.

The following year, the US Congress signed into law the Foreign Assistance Act, under which the Natural Resources Management Program (NRMP) emerged as a focus of the US Agency for International Development (USAID). An agreement was signed in September 1990, formalizing the commitment of the US government to support the NRMP in the amount of US\$125 million. Of this amount, US\$25 million was earmarked for the Resources Protection Component that would support local activities for biological diversity and sustainable natural resources management.

Thereafter, the Philippine Government, through the DENR and USAID began negotiations about the form and use of the aid for the environment. Concurrent discussions between Filipinos in the Aquino government and the NGO sector gave rise to the idea of using part of this aid to create a permanent endowment that could fund environmental activities free of changes in donor priorities or those of a new Philippine Government, which was scheduled to be elected in 1992.

Multiple Motivations and Intersecting Agendas

The birth of FPE was the outcome of intersecting agendas of various organizations:

- NGOs saw the opportunity for a fund held in perpetuity that would solve their grant-dependent syndrome;
- The PDF found a niche for its lobbying efforts after the demise of the Marcos regime;
- USAID saw an opportunity to pioneer a new area in development aid that incorporated NGO participation and substantial support for the environment and positioned the agency as a strategic donor during a historically significant period for the Philippines; and
- Philippine Government officials saw the promise of continuing program innovations outside the bureaucratic framework, thus averting discontinuity of public programs related to environmental concern and provided a funding mechanism to support NGOs and POs.

Concern that public sector environmental programs would be discontinued was a strong motivation behind the endowment campaign. Fulgencio Factoran and Delfin Ganapin, Secretary and Undersecretary of the DENR, respectively, were key to the plan to set up an endowment. Factoran had a long history with the voluntary sector before joining government in 1986. Ganapin, who had extensive experience and a Ph.D. in environmental science, had been appointed to provide expertise in formulating and implementing programs with strategic environmental components and a focus on community-based approaches.

Thus, as high-ranking government officials with strong links to the NGO community, Factoran and Ganapin both realized the impera-

tive for community participation in environmental resource management. According to Ganapin:

We established the NGO Desk in the DENR to ensure NGO participation in our policies and programs....We were concerned that the \$125 million USAID grant might once again go to support the balance-of-payment problems rather than to concrete projects, as many bilateral agreements had tended to do in the past. We were particularly interested in allocating a portion of that amount for concrete projects, in particular, those implemented and supported by Philippine NGOs.

Both officials recognized the tremendous power of government to mobilize personnel and resources, yet worried about bureaucratic inertia slowing down implementation of the best-intentioned plans. Factoran adds:

There is such a large mandate for the environment and government cannot do it alone. There is a need for the private sector to come in, both the private business sector and the private NGO sector.... Unlike the private business sector, NGOs needed independent financing in order to prevent being preempted by government, a situation they were always wary of anyway. We wanted to seek their collaboration with government without losing their jealously guarded independence.

A further consideration was the election scheduled for 1992. Factoran and Ganapin were concerned that political realignments after the elections would affect the bureaucracy and the continuity of the programs they had initiated at the DENR. This was a strong motivation driving an endowment campaign forward.

What Factoran and Ganapin envisioned was a long-term uninterrupted effort to support environmental conservation activities through substantial resources made available to NGOs, people's organizations (POs), and communities — without the stultifying procedures or vicissitudes of bureaucracy. In short, they hoped that their initiatives would survive and continue beyond their terms in government. Thus, the idea of an endowment fund to address all these concerns simultaneously seemed like an ideal solution.

In light of these considerations, Factoran and Ganapin saw the USAID \$125 million grant to the DENR as an opportunity to resolve their dilemma. The United States was keen to make its presence felt in the Philippines, particularly as the initiator of the Philippine Assistance Plan and an explicit supporter of Aquino's fledgling democracy. According to Ganapin,

They want to show that they are supportive of the new government...and USAID wants to always be seen as an organization that pushes the democratic ideals and processes along...[in addition] the US also wants to be one of the major players in the environment....

Pressure on USAID missions to spend their aid allocations in order to justify future budgets for their particular programs favored the creation of an endowment. As Eugenio Gonzales, an NGO activist and FPE pioneer, explains: "There is a bureaucratic advantage built into an endowment. Put 100 million dollars in an endowment and you would have spent 100 million dollars in one click. If you don't put it in an endowment, you spend it over several years...." Last, but not least, was the fact that intense renegotiations on the treaty for US bases were imminent.

While government negotiations with USAID proceeded, a separate track of consultations with NGO leaders and Filipino environmentalists was also pursued. The idea of funds to be held in perpetuity appealed to the NGO and voluntary community. Their recent experience pointed to an over-dependence on grants that were quickly depleted, thus rendering organizations and their projects unsustainable. NGOs already had concrete experience in fund management through the Philippines-Canada Human Resources Development Program, for which purpose the Philippine Canadian Joint Committee (PCJC) had been established. The PCJC managed the funds, in response to an advocacy campaign carried out by NGOs to direct a portion of overseas development assistance to the NGO sector, bypassing bilateral channels completely. The same held true for the Philippine-Australian Community Assistance Program in which Australian overseas assistance provided an opportunity for direct NGO access, the Rural Development Assistance Program of the Netherlands Government, and other "NGO windows" in projects funded by the European Union.

NGO sector representatives who played a particularly important role in discussions about this new environmental funding body included:

- Corazón "Dinky" Soliman, who had two decades of experience in grassroots organizing and community development, particularly during the years of the Marcos dictatorship. She was especially concerned about the role of the grassroots in project development, and served as coordinator and board member, respectively, for two organizations concerned with agrarian reform;

¹ PBSP is also documented in this series of papers.

² While he promoted the endowment for environment concept, Kalaw objected to USAID's Natural Resources Management Program, especially its liberalization provision which he read as: "...opening up...the Philippines' resources to logging efforts..." Kalaw's objections brought him into conflict with Philippine Government officials. To allow negotiations on the endowment to proceed, Kalaw stepped down and Nicanor Perlas of Ikapati Farms, a commercial enterprise producing pesticide-free agricultural products, took his place.

- Sixto “Tiny” Roxas, one of the foremost thinkers on the Philippine development experience, a conceptualizer of Philippine Business for Social Progress (PBSP),¹ and former president of the Asian Institute of Management. He combined solid management skills from many years in the private business sector with knowledge and experience in community work;
- Eugenio “Eugene” Gonzales, a well-known NGO activist, who helped create the Caucus of Development NGOs (CODE-NGO), a coalition of NGO networks with over 3,000 member organizations; and
- Maximo “Junie” Kalaw, who pioneered the Philippine environmental movement and was a founding member and president of the first NGO involved in environmental activities, the Haribon Foundation. Kalaw was an early supporter of the endowment concept and, under his tenure in 1988, the Haribon Foundation successfully concluded the first debt swap in Asia for US\$2 million redeemed at a rate of 80%.²

Thus, the founding members of FPE brought together many years of experience in running organizations. They were involved at the grassroots level, in government, business, and NGO contexts. Some had worked against anti-democratic practices during the Marcos regime using protest methods and pressure politics, then found themselves at the helm of government bureaucracies engaged in negotiations with many different constituencies and international partners. Some managed fragile policy coalitions to pursue common reform agendas. Others managed sizable NGO bureaucracies that were involved with diverse constituencies and clienteles as the private voluntary sector flourished and gained sub-

stantial recognition as an agent of social change.

FPE’s Form and Funding

A foundation mechanism was identified early in the negotiations between USAID and the Government of the Philippines as the preferred method for channeling the earmarked funds. According to Ganapin, the proposed structure served several goals and intentions simultaneously:

- First, FPE would not compete with other Philippine NGOs already active in the field of environmental protection. Since many NGOs were engaged in environmental advocacy when the Foundation was conceptualized, the founding members did not envision FPE as yet another advocacy group. Given the number of NGOs in the Philippines, it was important not to duplicate current efforts, but rather to meet a real demand for services that could be provided by a new structure.
- Second, a foundation-like mechanism provided the convenience of a private, nonprofit, non-stock, tax-exempt organization that could receive additional outside donations. No other institutional form offered this flexibility and simplicity. Also, a foundation structure would greatly facilitate the reporting and accounting procedures during the years of USAID oversight through its US NGO partner, the World Wildlife Fund.
- Third, the structure addressed founders’ concerns about making the flow of funds “indigenous.” It was felt that the foundation structure would insulate funds from the fluctuations of donor

country politics and ensure the long-term availability of financing.

- Finally, the foundation structure also was deemed best for ensuring better internal relationships, especially among Board members. “Because there are no members in FPE except the Board members, who sit primarily as individuals but with a strong NGO base, there will be no chance of any one organization or network seeking to dominate the Board membership and therefore the votes,” Ganapin says.

The endowment fund for FPE was to be created out of a “debt-for-nature swap.” USAID grant money was to be used to purchase Philippine debt in the secondary market, to be redeemed at favorable rates at the Central Bank of the Philippines.

However, further organizational issues needed to be settled before FPE could be up and running. When the USAID grant had been signed, the US Congress assigned as a condition that the US\$25 million for the Resources Protection Component be channeled through a US-based NGO for an interim period until the FPE was fully functional.

The World Wildlife Fund was designated as the US NGO partner. According to Ganapin, since WWF “...was seen as close to the Bush administration, USAID thought this was a good strategy to deal with the American Congress who would have to approve the USAID budget. An American-approved NGO would greatly increase the credibility of the USAID project in the Philippines.”

While USAID signed a Cooperative Agreement with WWF on April 22, 1991, the conditionality met with some resistance from Filipino nego-

tiators, who were insulted that an American NGO was being given “trusteeship” over a Philippine project. As a result, Gonzales says, Philippine NGOs, “...identified two conditions for their involvement in the FPE process: first, that the Foundation should be NGO-dominated and managed, and second, that Philippine NGO should be included in the Cooperative Agreement or at least in partnership with WWF.”

Subsequently, WWF signed a Cooperative Agreement with PBSP in July 1991. Both NGOs were mandated to provide technical assistance to FPE during its first two years, during which WWF and PBSP would administer an Interim Grants Program so that funds would be made available immediately to NGO applicants while FPE was being formalized. In addition, WWF also would administer all the paperwork for the first swap of US\$5 million.

Steps to Establish FPE

To facilitate the establishment of FPE, an Interim Board was created in September 1991. It had two major tasks. The first was to develop the articles and by-laws for the Foundation, including a selection process for the first regular Board of Trustees. The second was to implement the Interim Grants Program with assistance from PBSP and WWF.

The Consultative Process

Intrinsic to the culture of Philippine NGOs is the practice of extensive consultations before deciding any major policies that will govern NGO practices or formalizing and adopting major organizational initiatives. FPE, as a major NGO initiative, was subjected to such a process. When Interim Board members assumed office, they began an extensive consultation process over succeeding months to explain the FPE concept to various NGOs and

³ The participating networks included the Philippine Federation for Environmental Concerns (PFEC); the Environmental Education Network of the Philippines (EEN); CODE-NGO; Green Forum - Philippines; Association of Foundations (AF); Philippine Partnership for the Development of Human Resources in Rural Areas (PHILDHRRA); Philippine Institute of Nongovernment Organizations, Inc. (PINOI); and Association of Private Volunteer Organizations in Baguio and Benguet (APVOBBI).

POs nationwide. The Regional Outreach Program (Phase I) took place from October to December 1991. Its objectives were to:

- Introduce FPE;
- Present an overview of the debt-for-nature swap;
- Discuss initial ideas of policies, programs and project criteria; and
- Elicit suggestions on the draft articles of incorporation and by-laws.

Eight regional consultations were undertaken, dovetailing with national conferences of eight NGO networks in various parts of the country. These conferences conveniently provided FPE with the nationwide coverage it required.³

These nationwide consultations drew the participation of 512 individuals, representing 334 NGOs and twenty-four academic institutions. These consultations were one strategy used to achieve the stated objective that FPE become an organization “wholly owned and managed by the NGO community.”

A consultative process for making decisions about funds management was important, as was the consideration that USAID was the source of the endowment and the agency had traditionally been regarded by many within the NGO sector as “a bilateral program with CIA connections.”

The Study Tour on Philanthropy

Another step to formalize the creation of the FPE was a study tour on philanthropy to the United States, with the aim of providing the Interim Board with an exposure to organizations concerned with foundation governance and the process of grants management. The study tour was funded by the Ford Foundation, through WWF and took place in early 1992.

Foremost on the agenda was the identification of organizational models and governance structures that would best respond to the Philippine NGO constituency. They wanted to avoid conflict of interest within the Board of Trustees, a body dominated by NGOs that would be potential recipients of FPE funds. Frances Korten, country representative of the Ford Foundation and adviser in the process of setting up FPE, explains her concerns at the time:

I was particularly concerned about the governance structure that had been originally drafted which followed a membership concept. Under that structure, the idea was that some set of NGOs would be members and they would represent the “general assembly” which would elect board members every year. My concerns were that this would lead to a highly politicized institution. Anyone in a foundation knows that one of the hard parts of the job is saying no, yet that is what you have to do a lot if you want to fund quality programs and have any hope of being reasonably strategic. So a decision-maker needs to be somewhat insulated from direct political pressure from folks that are unhappy because you said no.

Upon completion of the study tour, the participants drafted a report that included a discussion of program priorities and selection criteria, scope of assistance and policy guidelines. It discussed extensively those mechanisms and organizational structures that could minimize conflicts of interest with the Board and reduce its susceptibility to political pressure.

The report proposed “...full disclosure of information when such situations (if and when the Board has such grantmaking powers) arise by

all parties, including technical staff.” Based on such disclosures, the parties concerned (specifically those whose organizations are prospective grantees) would either be asked to abstain from the deliberations and the voting on proposals or to be absent from such activities. These proposals were adopted and enshrined in the by-laws.

Workshop on Governance

The final event in the creation of the FPE was a workshop on governance and grantmaking, conducted by WWF and PBSP in May 1992 in Cebu City. Thirty-five participants representing environmental NGOs from all over the country and academia were present. Through dialogue and consultation, the workshop intended to flesh out the Interim Grants Program formulated by the Interim Board, to design and adopt a viable model for governance, and to define the process for putting a regular Board of Trustees in place.

Based on the workshop conclusions, the governance issues were resolved through creating Nomination Committees for each region (Luzon, Visayas, and Mindanao). Each committee submitted nominees to the Interim Board. However, the Interim Board proposed that other nominees be considered after consultations with other sectoral groups. A representative from an international organization as well as from government were also considered. The workshop groups proposed amendments to the by-laws of the FPE. These changes were incorporated immediately and the amended charter and by-laws were filed with the Philippines Securities and Exchange Commission (SEC) at the middle of January 1992.

An Interim Board meeting was held after the

Cebu workshop to screen the list of nominees for the first regular Board of Trustees. Ernesto Garilao, Executive Director of PBSP, held private meetings with the members of the Interim Board, USAID and DENR. A semi-final list was submitted for eleven regular Board members and a meeting on July 3 determined the final composition of the Board. Like the Interim Board, the first Board included people with backgrounds in the environmental movement. It also included representatives of WWF and the government.

With the conclusion of the workshop and the election of the first Board, FPE was formalized as a bona fide organization. The process of creation spanned nearly two years. However, this long process generated a positive response.

The chart on page 14 summarizes the various stages in FPE’s formation process.

Chart 1: Timetable of Activities

PDF	1989	November	<ul style="list-style-type: none"> Filipino delegates arrive in Washington and meet with
			<ul style="list-style-type: none"> Fulgencio Factoran meets with PDF and agrees to carry common agenda to the US Congress
efforts	1990	September	<ul style="list-style-type: none"> Signing of the Foreign Assistance Act in Washington, DC with positive conditionalities through the lobbying of the PDF
			<ul style="list-style-type: none"> Negotiations begin between the Philippine Government, NGOs and USAID
the	1991	April	<ul style="list-style-type: none"> Signing of a cooperative agreement between the World Wildlife Fund and USAID to provide technical assistance to FPE
		September	<ul style="list-style-type: none"> Creation of the first Interim Board of FPE Start of Interim Grants Program
		October-December	<ul style="list-style-type: none"> Eight regional consultations formally introducing FPE to NGO community nationwide
first	1992	January	<ul style="list-style-type: none"> Formal registration of FPE with the Securities and Exchange Commission
		February-March	<ul style="list-style-type: none"> Study tour on philanthropy to the United States
		May	<ul style="list-style-type: none"> Workshop on governance and grantmaking in Cebu City Tenure of Interim Board ends; election of members of regular Board of Trustees
		July	<ul style="list-style-type: none"> First regular Board of Trustees assumes office
	1993	December	<ul style="list-style-type: none"> Interim grants period ends
	1994	January	<ul style="list-style-type: none"> Turnover by technical assistance team to FPE Start of regular period

Governance

Mission and Vision

FPE communicates its mission, vision, goals and objectives, in its first Progress Report. This report provides details about the Foundation's history, its projects, its organizational and functional charts, its Board of Trustees, and its officers and staff. In the report, FPE refers to its vision of "an ecologically-balanced, clean and healthy environment. In this vision, communities live fully and care responsibly for their environment."

It states its mission as follows: "A nonprofit, nongovernment organization, the Foundation for the Philippine Environment exists to be an active, self-reliant, sustainable, and innovative catalyst of biological diversity conservation and sustainable development of the communities in critical areas needing protection and conservation."

To carry out its mission and vision, FPE plays the following strategic roles:

- **Grantmaker:** FPE does not implement projects on its own, but "initiates, assists, and finances biological diversity conservation and sustainable development activities. In addition, FPE aims to strengthen the capabilities of NGOs, POs and local communities in enhancing biodiversity conservation and sustainable development."
- **Fund Facilitator:** Apart from the income from the endowment fund, FPE will generate additional financial resources to support projects of NGOs and POs. It will, likewise,

"provide financial linkages between project proponents and donors."

- **Catalyst for Cooperation:** FPE encourages cooperation among international and local communities, governments, business groups, NGOs and POs, especially in "developing policies and effective programs for biodiversity conservation and sustainable development."

The Interim Board members held a preliminary workshop in September 1991 to brainstorm on FPE's general direction and to generate further ideas on the grantmaking process. Although no formal statement of FPE mission and vision was completed during this meeting, Board members agreed that formulation of a statement would have to be linked with the overall consultation process.

The regular Board of Trustees took office in July 1992 and created several committees to facilitate its work. A three-year business plan was drafted, together with a statement on the mission, vision, roles, and guiding principles. Preliminary statements were presented to the Board in November 1992. As this was still within the interim period, the Board concentrated on processing the project proposals submitted for funding support, and also decided to complete the administrative aspects of the debt swap before undertaking the formulation of a vision and mission statement.

During its fifth regular meeting on April 23, 1993, the Board decided to undertake a formal visioning and strategic planning workshop. A professor from the Asian Institute of Management, Herminio Coloma, facilitated the discussions, together with the consultancy firm, SyCip Gorres and Velayo (SGV). On June 11, 1993, the visioning workshop was held in Dumaguete City, attended by all Board mem-

⁴ Minutes of the 9th Meeting of the Board of Trustees. 15 October 1993.

⁵ The Board membership is listed in Annex 2.

bers and selected staff. The outcome of the workshop was distilled into three major documents:

- A Strategic Plan, which included a statement of vision and mission; a statement of values; and a statement of goals, objectives, strategies, and activities;
- An Organization and Human Resource Systems Study, which included recommendations on organizational structures; recruitment and selection systems; performance management systems; and training and development policies and procedures; and
- An Employee Handbook which discussed employment and hiring policies; compensation packages; performance appraisal; and expectations from employees, which included conditions of work, such as absences and overtime.

At the ninth meeting of the Board of Trustees, held on October 15, 1993, the Board members approved in principle the strategic plan, with recommendations for minor changes. The Board also suggested an addition to the mission statement as follows:

FPE is committed to provide financial resources needed to strengthen and support nongovernment organizations (NGOs), people's organizations (POs), and communities to enable them to be proactive and capable agents of biological diversity conservation and sustainable development activities.⁴

In the same meeting, the Board approved the organizational structure but no decision was taken on the Employees' Handbook.

The Foundation's Governance Structures

The loci of FPE's governance reside in three distinct structures — the Board of Trustees; the Regional Advisory Councils (RACS); and the committees organized by the Board in its first regular meeting in July 1992. Details of each structure follow.

The Board of Trustees

FPE's by-laws and articles of incorporation expressly state that "The Board of Trustees shall be the sole policy-making body of the Foundation" and that the Board shall exercise the following powers:

- Appoint or elect all officers, employees and administrative officers, except junior officers and employees, and define their duties;
- Purchase and acquire rights, privileges, or properties and manage its funds;
- Approve the annual budget; and
- Delegate its powers to any person, committee, agent or office which it designates, and act on its behalf.

The current Board is composed of eleven members, of whom six are regional representatives (two each from Luzon, Visayas, Mindanao) and four are "at-large" representatives, persons who are regarded as "luminaries" with national reputations. The eleventh member represents an international NGO.

For the first Board, some trustees had a term of four years, while others served two years. Thereafter, each Trustee will serve a term of four years. No trustee is eligible for re-election until a year following his/her termination of tenure. In 1994, four trustees were elected, replacing four who served a term of two years. Fulgencio Factoran, former Secretary of the Department of the Environment and Natural Resources, was elected chairman from 1992 until 1996.⁵

While local government officials are not represented on the Board, the national government is represented in an ex-officio capacity. The current Undersecretary of the Department of Finance (DOF), Romeo Bernardo, is a member

of FPE Board. This was necessary, Ganapin explains. "...in order to lend credibility to FPE, especially in view of the nature of the endowment. The original US\$25 million is bilateral money, hence, technically, it is awarded to the Philippine Government. We needed someone in the government as an assurance of our transparency to all sectors."

In determining the size and composition of the Board of Trustees, including eligibility requirements of the members, a critical consideration was representativeness. The founders sought to address this issue through the formula of four members "at large" with a national reputation and six members from each of the three regions.

Discussions on conflict of interest took place early in FPE's formation. At an Interim Board meeting in January 1992, the following models were proposed: 1) a self-perpetuating board composed of "wise" persons who would promote alternative thinking; 2) a board representing a wide range of NGOs that would be faithful to the alternative values; and 3) a board combining "persons less interested in grants" with NGO representatives who promote the values of accountability, transparency, and judicious and effective use of resources.

The final formula adopted at the Cebu governance workshop was perceived as the best possible compromise to address conflict of interest problems and a politicized grantmaking process. Technically, the Board is accountable to no one but itself. All operating units report to the Board and the Board decides on the grant proposals submitted by the NGOs and the communities. There is no membership body or general assembly that may be convened to which the Board of Trustees can report. However, the DENR and the DOF can

periodically review FPE, and FPE makes certain that it provides copies of certain reports to both agencies.

The Regional Advisory Councils

The Regional Advisory Councils (RACs) are autonomous local bodies composed of NGOs in the three major island regions in the Philippines — Luzon, Visayas, and Mindanao. The formation of the RACs by the Board provided an opportunity for FPE to explain the mission, vision and values of the Foundation and to disseminate these and other relevant information to regional and provincial NGO constituencies. The RACs provide an alternative mechanism to a Manila-centered, representative-based foundation and form a crucial element in the FPE's governance. The councils lend a national

character to FPE and respond to the original founding members expressed concern for the Foundation to be sensitive to local community needs and requirements and to have a mechanism to register these needs more regularly. The three RACs include fifty-nine members from regional and provincial NGOs. The term of office for RAC members in Luzon and Visayas is two years with an extension for another two years. Mindanao RAC members decided to limit their participation to one two-year term.

Regional Consultative Councils (RCCs), informal bodies that may be convened occasionally as the needs arise, are relied upon to nominate RAC members. They are considered "virtual" members in the governance structure of FPE, helping provide feedback and input in the nomination process as well as in program development and administration. The Councils nominate any number of persons they believe should sit on the Board of Trustees. The

Trustees, in turn, elect from among the proposed nominees according to the vacated category, e.g., a regional NGO/PO representative on the Board or an "at large" member.

Another role the RACs play is to approve all amendments to FPE's constitution and by-laws by a two-thirds majority. RAC members are responsible for informing the NGOs and POs in their area of major changes in policy adopted by the Board of Trustees and decisions on grants. According to Villavicencio, "...their strongest and most important role is to provide insight into the imperatives of the regions in light of environmental concerns and sustainable development. Inputs from the NGO community are seen as very crucial by FPE especially in terms of regional trends and how these impact and affect the environment in their regions." The RACs were crucial in identifying program priorities, including the ten priority biodiversity sites.

The Board Committees

The Committees organized by the Board of Trustees are a third locus of governance. Two types of committees were created in July 1992, the Executive Committee and Advisory Committees. The Executive Committee recommends action to the Board on general administration as well as policy reforms and program and administrative measures for more effective program delivery and implementation. The Advisory Committees are as follows:

- The Finance and Administration Committee formulates and recommends to the Board short- and long-term plans and financial projections; monitors and reports on the Foundation's financial performance; and makes appropriate recommendations on

FPE's financial and administrative systems;

- The Governance Committee studies and makes recommendations on the Foundation's governance structures, particularly RCCs and RACs; programs for outreach and constituency-building; grants policies and systems; and multi-year strategic plans; and
- The Program Development Committee makes policy recommendations on the grants program's goal, scope, and priorities, based on consultations with stakeholders, and works with the Governance Committee to develop three to five-year strategic plans.

These committees do not meet regularly and remain adjuncts to the organization, mobilized on occasions when urgent or non-routine matters have to be discussed. With Board

meetings scheduled once every quarter, the committees serve their purpose between meetings and allow Manila-based Board members to take up matters without referring to the provincial members. Such occasions are infrequent. The Finance and Administration Committee, however, met several times in late 1994. These meetings were convened to discuss fluctuations in interest earnings of the endowment, investment options, and other strategic financial considerations. The discussions of the Committee were presented during the Board meetings. One of the more important outputs of the Executive Committee was the criteria for the selection of the Executive Director, which they presented to the Board and which guided the search for a suitable person in late 1992.

Program Area	Project Type
Conservation of Philippine Biodiversity ment	<ul style="list-style-type: none"> • Protected Area Management and Development • Environmental Research • Environmental Awareness and Education
Technical Skill and Capability building of NGOs/POs	<ul style="list-style-type: none"> • Training Network Development • Professional Staff Development and Training
Community-Based Resource Management	<ul style="list-style-type: none"> • Natural Resource Management • Terrestrial • Marine • Wetland • Ecotourism Development

The Chairman of the Board of Trustees

As chairman, Factoran sees his role as "strengthening the environmental NGO movement in the Philippines. Also, to assist the bigger ones to get accreditation and connect them to international financial institutions so that they can obtain resources for their projects. I see my role as encouraging more projects on the ground and for more individuals to form more NGOs. However," Factoran emphasizes, "I want NGOs to be democratic and pluralistic. Under my chairmanship, I do not want to see any coalition of NGOs 'capture' FPE's Board. I want FPE to belong to all NGOs."

The Executive Director

After the Trustees were formally elected in 1992, the position of Executive Director was advertised in local newspapers and over 100 applications were received. A joint committee of PBSP and WWF, and later a Board Committee, pruned it down to a shortlist of eight candidates who appeared to meet the criteria, including advanced academic achievement, five years of field experience in conservation in the Philippines, and strong management skills. After an extensive screening and interview process, the Board approved the hiring of former DENR Undersecretary Delfin Ganapin as Executive Director. He was hired on a four-year contract and a competitive compensation package consisting of cash and non-cash benefits and a bonus scheme related to accomplishments in key result areas. Ganapin joined FPE in January 1993.

Ganapin views his position as multi-faceted, requiring a range of skills, attitudes and orientations to deal with diverse constituencies and publics. One such constituency is the Board,

which is composed of different ideological, political, social, and geographical backgrounds and varied personalities. To avoid conflict of interest, Ganapin hopes to establish procedures where "no organization directly or very strongly related to FPE's Executive Director and other officers of the Board will be eligible for funds. We're still testing the waters....I've very deliberately made sure that organizations close to me are not going to get money from me. I want to suggest [we also do the same] for the Board of Trustees — to remove the conflict of interest."

According to Ganapin, "the Executive Director should stay five years at the most, or else you get the organization to absorb the thinking of that person. The organization becomes a personal organization instead of an independent institution." To prepare for leadership changes, he says, "We really have to get into a lot of capability-building, especially of the second liners."

FPE was reorganized in 1996 with the hiring of a new Executive Director and two deputy directors. The Board of Trustees approved a reorganized structure in July 1996 after presentation of the Mid-Stream review by an independent professional consultant.

The new Executive Director is Donna Gasgonia, who was selected by the Board of Trustees from a list submitted by an independent executive search firm. The process started in July 1995 and was completed in December 1995. Some seventy applicants responded to the search for a new Executive Director. However, the Board also decided to hire two others as deputy directors to handle program development and institutional development. These were Renato De Rueda and Julio Galvez Tan, respectively. All three reported for work in January 1996.

⁶ "Green" referred to tropical forests; "blue" to marine resources; and "brown" to urban environmental issues such as air pollution, waste, noise

As Executive Director, Ganapin is in charge of FPE's day-to-day management. He manages donor relations, mobilizes resources for the Foundation and promotes cooperative linkages between the Foundation and its various clientele. With the Controller, he signs the checks and other financial instruments drawn against the endowment fund. Ganapin can approve grants up to a maximum of \$4,000 within the Action Grants Fund category.

Program Operation and Evolution

The FPE's current operations are the outcome of an evolutionary process that had two major program phases. The Interim Grants Program covered a period of two-and-a-half years, from July 1991 through December 1993, and the regular program phase began in January 1994.

The Interim Board Grants Program (IGP)

The IGP was considered a necessary period in view of USAID's requirement that FPE should first generate a track record in fund and grants management before full stewardship of the endowment could be ceded to it. In addition, the IGP was set up in order to provide immediate funds to Philippine NGOs and POs for environmental projects while FPE was still in the process of creating a grants management system. Priorities for the IGP were derived from the USAID-WWF Cooperative Agreement of April 1991. The agreement provided terms for the management of an interim grants program and specified the kinds of projects that could be approved by the Interim Board.

During the IGP phase, FPE interim staff identified three major program areas:

- Conservation of Philippine Biological Diversity;
- Technical Skill and Capability Building; and
- Community-based Resource Management.

These three program areas were further classified into specific project types, as follows:

The Interim Board formed a Program Development Committee to flesh out a framework for regional consultations with the NGOs, focusing on the program areas identified in the USAID-WWF Cooperative Agreement. A grants program manual, officially adopted in February 1992, defined the scope of assistance, criteria for projects and project development and procedures, and monitoring and evaluation guidelines.

At the same time, discussions related to FPE's program thrust took place. During the eighth meeting of the Interim Board on March 27, 1992, Gonzales presented a program intervention matrix designed to help the Interim Board establish FPE's particular niche as a funding institution. The matrix presented different types of issues — green, brown, blue ⁶ — in order to clarify the projects which FPE would review. The matrix was to help focus on a niche in different ecosystems and presented options to narrow FPE's role. Similarly, Ganapin, who was still with the DENR, presented a proposed strategic program and projects accounting matrix in order to guide FPE on where to place its effort and assure that all ecozones and sectors were covered. The matrix provided a timeline in terms of activities to be undertaken

over the immediate, medium and long-term periods.

In July 1992, after lengthy discussions with USAID, it was proposed that biodiversity conservation become the Foundation's flagship program and project focus. According to Veronica Villavicencio, the Interim and Regular Grants Program Director, "During the IGP phase, we were clear about supporting the 'green and blue' rather than the 'brown,' but we were not too sure about what kinds of concrete projects to support...We thought of rehabilitation and agroforestry. While USAID was open to it, their expressed program preference was for biodiversity conservation. The Board and staff thus took the cue from AID, and proceeded accordingly."

Dinky Soliman, one of the pioneers of the FPE, recounts the shift in priority focus to biodiversity conservation: "Biodiversity was selected... because it was stipulated in the law providing for the endowment grant. This was part of the 'positive conditionality' stipulated by the United States Congress."

Virgie Ongkiko, a Senior Program Officer at the Foundation during the IGP phase, attributes the biodiversity focus to the Memorandum of Understanding (MOU) signed between the USAID and the Philippine Government. Ongkiko recalled, "the concern for biodiversity was very clearly stated in the MOU....To suit the contents of this contract, biodiversity was specified as the program priority of the Foundation."

On June 11, 1993, the regular Board of Trustees adopted an explicit policy decision statement, that said:

FPE will adhere to the primary focus for which the present endowment fund was

established within the USAID grant, i.e., for the conservation of biodiversity and natural resources protection. This means that all projects to be financially supported will need to contribute to this focus. Operationally, every project presentation will have to answer the question: "How is this project linked with the conservation of biodiversity?"

FPE decided to leverage other funds to expand its scope of assistance to the NGO/PO community, but in terms of the use of the endowment fund, the Board decision was to "respect the intended focus and justification of the present funds as stipulated by the donor." In addition, FPE decided that it would not fund tree planting or reforestation projects, primarily because current multilateral assistance was already available for these projects.

Whether through the MOU or the Natural Resources Management Program as mandated by the US Congress, it is clear that FPE's program agenda was determined externally. According to Gonzales, "The only justification presented for this shift in priorities was the fact that the funds were sourced from a biodiversity fund allocated by the US budget. While biodiversity as a priority is not a problem in itself, the NGO representatives feel that this should have been cleared at the beginning of the negotiations."

The process of priority setting helps explain some of the problems which the Foundation currently faces — particularly the disjunction between good project management among staff and a weak understanding of technical biodiversity conservation issues. According to Villavicencio, "the internal staff had to grapple with this new field of engagement, explaining the concept of biodiversity. They themselves

**Table 1: Summary of Grants Approved
Interim Grant Period, July 1992 - December 1993
(in US\$)**

Year	Site-Focused		Responsive		Proactive		Action		Amount (in US \$)*	
	#	\$	#	\$	#	\$	#	\$	#	\$
1992 (July - Dec)	0	0	12	461,538	0	0	7	23,846	19	485,384
1993 (Jan - Dec)	10	80,000	21	835,385	14	402,692	27	92,308	72	1,410,385
Total	10	80,000	32	1,296,923	14	402,692	34	116,154	91	1,895,769

*1 US\$ = approximately 26 Philippine pesos

Source: FPE Finance Unit

had to learn...and explain this to our project partners.” This simultaneous process of internal staff re-orientation and re-focusing of the programs saddled the interim program and staff with several demands.

To address this problem, Gonzales recommended that the leadership in FPE start defining

biodiversity more concretely. “The Board needs to identify what else needs to be done, how this can be taught, and how a project can effectively be evaluated. What makes it difficult is that it does not have a model of a biodiversity

conservation project....You really can't move money if you don't know what it's for!”

Since FPE did not have in-house expertise, in 1993 it asked Cristi Nozawa of the Haribon Foundation to draft a concept paper on What is Community-based Resource Management

and Biodiversity? In the same year, Villavicencio drafted a concept paper — Conservation of Biodiversity as an FPE Program Focus — outlining the possible program and project interventions of FPE. Both papers were attempts to define a model of a biodiversity project. But Gonzales maintains that FPE “still needs to answer [the question]: ‘What is a biodiversity conservation project?’”

Evolution of Funding Mechanisms for Program Support

Projects that met these criteria were funded under one of three funding mechanisms.

Responsive Grants Program

This funding mechanism extended grants to NGOs, POs and other qualified candidates. A subcategory of the Responsive Grants Program is the site-focused project that allows candidates to receive a smaller, initial grant to undertake a rapid site assessment (RSA) in a biodiversity center. Other projects include providing assistance to NGOs and POs in initiating activities in view of preparing for a larger project with a longer-term implementation period. The site-focused project grant lasts between six months to one year. The candidate uses this assistance to support such activities as resource assessment, creation of collaborative mechanisms with government agencies and local government units, pilot testing, and project design and planning. The decision to introduce this subcategory was undertaken in a Board of Trustees meeting towards the end of the IGP. A policy decision by the Board in December 1993 allocated 70% of funds to site-focused projects, 25% to non-site focused projects, and 5% to action grants.

Action Grants Fund (AGF)

The concept of this fund was to support the proactive stance of FPE, particularly for training and institution-building. It extended financial support to individuals affiliated with NGOs or POs engaged in environmental programs under FPE's program scope. The AGF was intended to provide quick access for such activities as attendance in conferences, study tours and exchange visits within a limited peri-

od of two months. The tenth Interim Board meeting approved an allocation of \$50,000 of the interim grants fund for the AGF. A maximum of \$2,000 per candidate was set, and later raised to \$5,000 to "deplug the Board's approval agenda during meetings."

Board deliberations on projects during the IGP were confined mainly to the Responsive Grants Program and the Action Grants Fund. With a big volume of proposals coming into the Foundation, the Board was kept busy evaluating these projects, ensuring that the IGP fund of \$500,000 would be moved as efficiently as possible.

Proactive Programs

According to Ganapin, the concept of the proactive program was to "build foundations of support [by] engaging in required activities now to get into bigger programs later on." The regular Board later defined additional objectives for proactive grants: 1) to focus FPE support on critical issues in the environmental field and 2) to develop the capability of POs and NGOs to make informed decisions on key issues such as social acceptability and rights of use and access to natural resources.

The proactive program was unique in that FPE conceptualized and initiated a series of programs in order to design, study, and test strategic interventions and mechanisms in support of overall efforts for biodiversity conservation and sustainable development. Further, proactive programs were envisioned to consolidate local efforts at the regional and national levels in order to achieve more strategic results.

The proactive program category was introduced in February 1993. Projects to be sup-

ported under this scheme were those that provided or created mechanisms for strategic support to NGO/PO biodiversity conservation and community-based resource management projects.

The Board approved nine proactive projects in principle on February 19, 1993:

- Information and data base (INFOBASE);
- NGO and PO capability-building (CAPA BUILD);
- NGO/PO participation in environmental management within the local government system (LOCAL GOV);
- Environmental defense fund and legal assistance (ENDEFENSE);
- Multisectoral network for protection of environmentally critical areas IPASNET);
- Communication linking through radio broadcasting (RADIOBROAD);
- Research on biodiversity and indigenous peoples (BIOLP);
- Regional Advisory Committee strengthening (RACSTRENGTH); and
- Building up of NGO/PO secretariat for the Philippine Council for Sustainable Development (BUILDCOUNCIL).

By April 1993, the Board was presented with five proactive projects for its consideration. By the close of the IGP at the end of 1993, the Board had approved fourteen projects, totaling \$402,692. Table 1 summarizes the grants provided according to this funding mechanism during the IGP and the amounts approved under each funding category.

The IGP staff and Board accomplished the task of managing the grant-giving process

with a high level of consultation among staff, candidates and Board members, and a rigorous project review process.

The relative efficiency of the IGP may, perhaps, be traced to the biodiversity conservation focus adopted by FPE. Processing of proposals became easier once FPE's thrust was determined. A year after initiating the IGP, Grants Program Director Villavicencio reported that a high percentage of proposals (67%) were rejected, because the projects were not within the program focus. The high rate of rejection pointed to the need to sensitize the NGO/PO community towards biodiversity conservation, itself a relatively new area in the broad field of environmental conservation and protection.

A further issue concerned the amounts available for the IGP for project support. An initial outlay of \$500,000 was made available to FPE in order to support projects of NGOs and POs immediately, even while FPE was itself undergoing its own creation. Amounts approved and committed for projects overshot the \$500,000 limit. One implication is that projects approved towards the end of December 1993 would most likely wait for transition processes to be completed, causing some possible delays in implementation. This seems evident in the 1993 approvals for the site-focused projects. The ten projects approved in December 1993 to conduct rapid site assessments were scheduled for May-July 1994 for all sites, at least six months after approval.

Other delays in grant releases were noted in the assessment report of IGP. Delays of up to three months were experienced due to the absence of a grant agreement between April to July 1992. According to the report, delays were attributable to the "administrative con-

straints in FPE and WWF systems, as in the unavailability of check signatories and inefficiency of processing the requests.” This was finally resolved only in September, when the Board agreed to adopt the WWF standard agreement as the interim contract agreement between FPE and the recipients.

Developing Grantmaking Procedures

The Grants Program Manual drafted and adopted by the Board in the 1992 interim grant phase, provided details on: criteria of candidates and project eligibility, period and forms of assistance, the review process, and guidelines for project monitoring and evaluation. The existing program manual of PBSP was used as a model and redirected towards environmental programs and projects. The draft was written by PBSP program officers contracted to FPE and finalized by FPE staff.

The 1992 Grants Program Manual requires that candidates for funding must be:

- A nongovernmental organization, a people's organization, a cooperative, or a private university or training institution;
- Duly registered with a recognized and accredited registering institution or government regulatory board; and
- Operating on a continuous basis for a minimum of two years prior to the grant application.

The candidate also must demonstrate organizational capability as evidenced by an established organizational structure, expertise in project planning and implementation, demonstrated competence in project management, a well-established area-based structure where the

proposed project will be implemented, and established financial systems and procedures including audited financial statements for the past two years prepared by a certified public accountant.

Candidates who do not meet all the eligibility criteria may qualify for assistance, provided an intermediary organization is eligible as a proponent and willing to act as a primary proponent and project holder. The intermediary organization will administer and manage the funds, attain the project objectives, and build up the partner organization's capability to become the primary project holder within a period of one to two years.

Additional key factors in determining project eligibility as stipulated in the manual are:

- Clarity;
- Consistency/logic;
- Cost effectiveness;
- Capacity/competence of the proponent;
- Community participation in conceptualization, planning, decision-making and implementation;
- Technical feasibility;
- Sustainability;
- Risk/potential for success;
- Complementarity;
- Replicability; and
- Community impact and relevance.

The Grants Program provides funds for a minimum of one year and a maximum of three years. Staff felt that less than one year was

Table 2: Summary of Interim Board Decisions on Proposals July 1991 - June 1992

Board Decision/Action Taken	Number of Projects
Approved	
• Biodiversity Conservation	1
• Technical Skill	1
• Community-Based Resource Management	1
• Delegates to NGO Forum (Brazil)	1
• Delegates to UNCED (Brazil)	1
Rejected	34
Withdrawn	1
For Further Development	43
New Screening (by regular Board)	6
Total	89

not enough to see the impact of efforts at achieving sustainability. Ongkiko explains, “the staff saw that it was important to define sustainability in operational terms, to implement projects within a natural resources framework. With biodiversity as a focus, sustainability even within a three-year project cycle was problematic.”

The Review and Approval Process

The core of the Interim Grants Program was the Project Development Monitoring and Evaluation (PDME) system. FPE was able to extend assistance to candidates to develop proposals from a raw state into more stan-

dardized form to present to the Board for its decision. The basic steps in the process were based on PBSP’s system, but innovations were introduced in order to be more responsive to FPE’s environmental mandate. These innovations were introduced in January 1993 when the new Executive Director arrived.

One major innovation was a “two-pass” system for screening proposals according to:

- 1) the urgency of needs by the NGO/PO, and
- 2) outreach to fund NGOs and POs with less access (the equity consideration). When subjected to these considerations, proposals were comparatively assessed with each other rather than on a first-in-first-out basis. Thus,

Table 3: Number of Grants Provided According to Program Scope (as of December 1993)

Program Scope	1992 (Interim Board)	1993 (Regular Board)	Total
Conservation of Philippine Biodiversity	6	10	16
Technical Skill or Capability Building	2	1	3
Community-based Resource Management	4	10	14

proposals were assessed by batches and “sifted” twice. After the two-step screening, project officers and candidates worked together to improve the proposal. As the IGP gained more experience and an increase in the inflow of proposals, project development with field visits to the site were conducted.

Among the other innovations in the appraisal process was the organization of an Expert Advisory Panel (EAP) whose members would provide technical recommendations to improve proposals, on the recommendation of Richard Edwards of WWF. The technical pool was a mechanism to relieve the Board of Trustees of the politics involved in grantmaking. By December 1992, the panel consisted of twenty-five individual experts who agreed to provide technical expertise for proposals. From July to December 1992, four individual experts were tapped to assist in the technical appraisal of

two projects. A *pro forma* contract was drawn up between panel members and FPE and a “patriotic” fee of US\$20 (PhP500) served as an honorarium.

To formalize the participation of the panel, two consultative workshops were held in 1993 to identify the precise inputs of the members and working mechanisms to maximize their contributions. It was also decided that the role of technical experts would be advisory, with final decisions on projects undertaken by the Board of Trustees. In their advisory roles, EAP members assist the appraisal process by examining the validity of the assumptions in grant applications, identifying success components in projects, assessing the general workability of projects, and evaluating the proponent’s managerial and technical capabilities. EAP members also provide information and updates relevant to project development, including regional

Table 4: Distribution of Grant Beneficiary Groups by Sector (as of December 1993)

Sector	Beneficiary Group
Farmers	13
Fisherfolks	9
Indigenous Community/Farmers	4
Youth or Young Professionals	3
Other Community Sectors (entrepreneurs, church teachers, professionals)	5
Total	34

Table 5: Distribution of Grantees by Types of Organization (as of December 1993)

Type of Organization	Number
Nongovernmental Organization (NGO)	11
• Community Organizing and Community Development	6
• Support Services (Education, Training, Communication Livelihood, Conservation)	5
• Science/Research	3
NGO/PO Network	3
People's Organization (PO)	
• Cooperative	2
Total	30

Source: FPE Interim Board Grants Program Assessment Report, February 1994; pp. 20-21.

and national trends that may have an impact, however indirectly, on project implementation.

Another innovation was an intensive project review or “project gridding” that formed a central part of FPE’s appraisal process. The purpose of the gridding was to “review and correct the proposal, which is already in the form of a draft presentation report, so that it would stand up to scrutiny by the Board in the latter’s deliberation.” Ongkiko, explains that this process, involves “a review of the proposal using standard criteria for project appraisal.... various perspectives are drawn in by inviting a group of technical persons, often from the EAP, to review the proposal. PBSP Program Directors, together with FPE staff took part in this gridding. The uniqueness of this process stemmed from the fact that it drew in a lot of ideas. There was danger, however, in the absence of the candidate.”

The gridding process, according to Ongkiko, took about two to three hours per proposal, meaning that staff were able to tackle between four and seven projects each day. This innovation was considered valuable, because it provided a multidimensional approach to environmental projects through the inputs of different experts and through the presence of senior PBSP staff who had extensive experience in project appraisal. During gridding, questions on attainability of objectives, proponent capability, and investments results and returns were asked, to direct the development of the proposal towards these concerns.

In addition, program officers in charge of the proposal expanded their knowledge and outlook via this process because the questions pointed towards deeper investigation of project concerns that strengthened the proposal. When suggestions and comments were incor-

Table 6: Summary of Grants Approved by Funding Category January - December 1994

Funding Category	Number	Amount (US\$)
Site-Focused	7	365,600
Responsive	21	901,200
Proactive	13	688,000
Action	32	101,600
Total	73	2,056,000

Source: FPE Finance Unit

porated into the final presentation report, the Program Officer learned both about the project development cycle as well as the technical components of the project. Ongkiko explains that “the gridding process standardizes all project presentations, thus making it easier for the Board to decide on projects. Hopefully it captures the essence and intentions of the proponent, with the Program Officer helping in translating them into a language which the Board members can understand and act on.”

IGP staff then prepared a presentation report for discussion by the Board. Approved projects were subjected to site visits, technical review by a member of the EAP if required, and gridding. When the Board approved a project, a grant agreement is executed between the proponent and FPE. During the interim grants period, the standard form used was that of the World Wildlife Fund.

Early Grant Recipients

The Interim Board, whose life span extended from September 1991 to June 1992, held twelve meetings and approved three projects: a book on the politics of logging classified under the program scope of biodiversity conservation; a capability building project; and a community-based resource management program. The grant total for the three projects was \$54,462. The Interim Board disbursed \$8,530 to two action grants fund projects, consisting of support to the delegates to the international NGO forum and to UNCED in Brazil. Of the \$500,000 IGP fund, a balance of \$432,008 was available as of June 30, 1992.

Table 2 provides Interim Board decisions on eighty-nine project proposals received during its first years of operations, representing a total of eleven Interim Board meetings.

At the end of its term in June 1992, the Interim Board drafted and finalized a grants program brochure. Two thousand copies were printed and 1,500 were distributed to the NGO community. The brochure contained information about FPE, including its grants program and the types of projects that the Foundation would support; the eligibility criteria; the process of evaluation; and a brief background on the USAID-sponsored NRM, from which the endowment fund projects was derived. The brochure became the primary source of information on the Foundation's opportunities for grantmaking and procedures to potential recipients.

The regular Board, which assumed office in July 1992, took over the functions of the Interim Board and continued with the process of approving or rejecting proposals. They had on hand six projects that were ready for a decision, plus another forty-nine proposals that had to be screened and further developed. According to the 1994 assessment report of the IGP at the end of December 1993 when the Technical Assistance Phase ended, the Board of Trustees approved a total of sixty-nine projects amounting to \$1.8 million (P47.29 million). A total of 215 proposals were screened.

Table 3 provides a summary of projects funded through December 1993.

In addition, there were thirty-six short-term action grants which were approved by the end of December 1993. These grants went to support projects to cover such activities as a movie film clip for conservation awareness and education, a book on sustainable development, a book on photographs and reportage on environment, and a drama-concert for the conservation of Laguna Lake.

Direct beneficiary groups belonged to five

sectors: farming, fisheries, the indigenous community, youth or young professionals, and other community sectors that include entrepreneurs, church-affiliated groups, teachers and professionals. More than half of the beneficiary groups (twenty-six) were upland farmers and fisherfolk, groups that are among the most economically vulnerable and marginalized in Philippine society. Since many of these groups did not have the organizational and technical capability to qualify for FPE grants, NGOs were commonly called upon to partner with them and serve as intermediaries until the primary organizations were capable of taking over and managing the projects by themselves. Table 4 shows the distribution of grant beneficiaries by sector, and Table 5 shows them by organization.

Grants in the Regular Program Phase

In January 1994, FPE's Regular Program phase began as PBSP and WWF technical assistance ceased. While the grant management process remained largely the same, FPE sought to sharpen its grantmaking function. The responsive program was expanded to cover two other sub-components: site-focused projects and strategically-supportive (non-site focused) projects.

FPE developed its site-focused development strategy, which has the following goals:

- Preserve biodiversity resources in identified priority sites;
- Rehabilitate efforts in these priority sites;
- Form one team per barangay (village) for conservation work; and
- Assist NGOs and POs through appropriate funding and technical assistance from

relevant cooperating partners.

With the assistance of the EAP, which recommended forty-five possible biodiversity sites, a list of eleven sites for targeted support was drawn up for 1994 and another ten new sites were identified for 1995. This approach was different from the interim phase, which accepted proposals from an unlimited number of areas.

These site-focused projects were subjected to RSAs for a maximum of four months. The assessment included an ecological, biophysical and socio-cultural reading, as well as the identification of immediate interventions, potential partners and other stakeholders.

Upon completion of the RSAs in August 1994, FPE conducted workshop in September 1994 for ten

candidates who received funding support from FPE. The workshop was intended as a model for the conduct of future RSAs in other areas, as well as an opportunity for candidates to

identify longer-term project interventions. The FPE also used the results of the workshop to proactively solicit and develop proposals, draw up a list of potential project partner groups for project development and implementation, and identify major NGO/PO coalitions in the areas for their assistance.

The strategically supportive (non-site focused) projects aimed "to expand, strengthen and consolidate national, regional and local biodiversity conservation and sustainable resource management efforts." These are developed in light of the ongoing proactive projects. Some project types that may complement existing proactive activities are projects that undertake research studies for policy, legal and institutional structures in support of biodiversity conservation and sustainable resource man-

agement.

Action grants have also become more focused in terms of the short-term initiatives that are available for assistance. This fund facility will support training, seminars and workshops and conferences, preferably within the Philippines, for capacity-building. It will also support the production of popular education materials for campaign and advocacy events and its wide dissemination. Finally, the AGF will support action research projects that are quick, community-focused studies so that results can be used immediately as inputs for planning and implementation strategies, training and education designs as well as for collaborative endeavors in related sectors.

Table 6 summarizes projects approved under the regular grant phase, covering the period January to December 1994, with site-focused grants listed separately from other responsive grants.

Grant Eligibility

According to FPE policies (1994-96), eligible candidates are still private, nonprofit, service-oriented organizations holding at least a two-year legal registration with the Philippine Securities and Exchange Commission, the Department of Labor and Employment, or the Cooperatives Development Authority. Ineligible candidates include for-profit consultancy services and civil, religious, and professional organizations.

Candidates for funding are also restricted to one grant for full implementation projects and are not eligible for a subsequent grant until the project has been completed. However, they are eligible for one full implementation grant and one action grant within the same

year.

Review Process

In terms of the grant appraisal process, the steps have remained essentially the same as those installed during the interim period. However, with greater practice and more staff, assignments to Program officers are more systematic.

As grants program director, Villavicencio carries out an initial screening of proposals to identify which fall outside FPE's biodiversity conservation thrust, and assigns the rest to program officers' investigation. The program officers seek to determine the feasibility of the proposal through discussions with key people in the area, usually with the NGOs and POs. The program officers also seek to pinpoint the potential problems and constraints related to the project's implementation. After the site visit, the Grants Program team, the Executive Director, and Grants Program Manager discuss the proposals together. Expert Advisory Panel members may be requested to participate either in the site visit stage or in the intensive assessment. As a collegial body, this group recommends whether proposals should be further developed or rejected. Ganapin is always included in this process because he informs candidates of the reasons for rejecting proposals. These proposals are then finalized for presentation to the Board of Trustees for their decision.

Grant Monitoring and Evaluation

FPE has an elaborate system to monitor and evaluate grant projects. One instrument is the project monitoring visit which is required of every program officer. "The same program officer who carried out the initial...inspection

also takes on the task of monitoring the project through semi-annual visits...[which] allow for mid-year readjustments,” Villavicencio explains. “This is also a good opportunity for candidates to sit with an outsider who will provide objective inputs to their project. For the program officer, it is an opportunity to bring in FPE’s comments and views on how resources should be utilized to ensure sustainability. The program officers are there not just to determine what they have accomplished, but also to identify areas for further project development.”

To perform monitoring and evaluation functions, FPE has designed a questionnaire to elicit information on several project needs, which elaborates on the five sets of indicators contained in the project monitoring checklist. Completing the checklist requires field interviews with community/beneficiary members, inspections, reviews of records and documents, meetings with project candidates and their staff, an inspection and review process by the EAP, reviews of financial records and interviews with other informants including site-based NGOs, local government official and community and/or religious leaders. Each grantee is required to submit quarterly accomplishment reports, quarterly expenditure/liquidation reports, and project completion or terminal reports.

To further improve the monitoring and evaluation system of FPE, Villavicencio feels there is a need to be more explicit in terms of the practical criteria, indicators, and tools for monitoring. At present, FPE employs very generic indicators. The indicators must be converted into candidate-friendly terms, so that the process enlists more fully the participation of candidates rather than viewing them as the objects of the monitoring exercise. “The criteria should cover

three items: the organizational capability of the NGOs, community acceptance, and consistency of the project plan....Also, the question of sustainability needs to be answered, in particular, ‘Can communities continue conservation efforts even without FPE input?’ The partners and the communities need to make explicit their sustainability plan.”

Cynthia Bautista, a resource person called in by FPE in early 1994 to comment on proposals with a research component, felt that the “review process was a good one. People listened to each other, the process had its own momentum, and the facilitators who handled the workshop were also particularly good.” However, Bautista finds that FPE “still employs a very strong, traditional academic evaluation process in that it focuses on results rather than on the process that the project underwent. This ‘process-side’ should be incorporated into evaluation schemes...in view of the face that NGOs are dual organizations which need to be concerned with both the results of projects and the process by which those results were achieved.” One constraint is the move on the part of donor agencies to require objective criteria to concretize or operationalize the gains as the basis for evaluation.

Staffing

In 1995, there were twenty-four FPE employees, assigned as follows:

- Office of the Executive Director 6
- Grants Program Unit 10
- Administration/Human Resources Unit 5
- Finance Unit 3

The Grants Program Unit, the “nerve center”

of the Foundation, had two senior program officers, four program officers, one program assistant, and one staff assistant. Two of the six program officers have been with FPE since the interim phase. Grants Program staff undertake all the necessary preparations for projects, including recommendations for rejection, approval, deferment or further development, and the board usually concurs with staff. In Villavicencio's words, "Eighty percent of the decision relies on the work of the program officers. [Thus], FPE is primarily staff-driven."

The Grants Program Unit during the IGP/technical assistance phase was composed of six PBSP staff, who had backgrounds in social science or business, not environmental sciences. The backgrounds of current program staff include forestry, environmental and community-based resource management, sustainable agriculture, communications research and project development. Villavicencio feels that "there is better stock of knowledge among the existing crop of program staff compared to during the interim grants phase." She considers this a good balance.

Gonzales agrees that there is a very high demand placed on the staff capability. "The staff, in a way, have to be better than the Board, not just in terms of skills, but in terms of the understanding of the broader public interest....

It is important that the staff be multi-dimensional," he says. "While they have technical skills, staff must also have an NGO orientation.

They also must have a sense of responsible philanthropy."

A particular staff problem relates to the issue of compensation, especially the large gap in pay levels between staff and management.

This discrepancy prevents the Foundation from attracting good, qualified people at staff level and affects staff morale. Baylon cites the 20% salary cap in relation to the total administrative budget as a major reason that a considerable salary adjustment could not be made. Staff argue, however, that this adjustment could be accommodated if the salaries of management were adjusted downward.

Gonzales reports that another effect of this situation "is that FPE has lost its good people [in project management] to foreign institutions who can pay better or to do freelance work where they can earn better doing short-term but high-paid consultancies."

There is a high rate of staff turn-over. Between 1992 and 1993, a total of twenty-four people came to work with FPE. Of these, ten had been replaced by 1994. With the final results of a "job matching" exercise and salary rationalizing plan undertaken by an outside auditing and management firm, it is hoped that a more balanced and better distribution of benefits and responsibilities will be achieved.

⁷ Memorandum from Barbara Hoskinson, WWF, 7 January, 1992

Table 7: Summary of Debt Swap Conversions

Debt Swap	Pledge Value (in million US\$)	Debt Purchased (in million US\$)
Debt Swap 1	5.2	10.2
Debt Swap 2	13.0	19.0
Total	18.2	29.2

Financing FPE

Sources of Financing

FPE was initially financed by a US\$25 million commitment from USAID to fund debt-for-nature swaps under the Natural Resources Management Program of the DENR. The debt swap was one mechanism used to address the Philippines' chronic indebtedness, a situation that both the Philippine government and the NGO community viewed as the cause of continuing underdevelopment of Philippine society. The debt swap was considered an innovation in debt-reduction schemes, while supporting efforts at long-term sustainable development.

The creation of the endowment fund for the Philippine environment was achieved with the participation of the WWF, recipient of a grant from USAID in April 1991. According to the Cooperative Agreement signed between the two parties, its expressed purpose was to create an endowment for an environmental organization in the Philippines. The WWF received a total of US\$6,133,884, which included US\$5 million for the debt swap and an additional

US\$1,133,884 for the technical assistance component.

Under the terms of the Cooperative Agreement, the debt swap was the primary responsibility of WWF. In order to carry out the swap from which endowment funds would be sourced, WWF performed the following functions:

Negotiations with the Central Bank of the Philippines: The WWF entered into formal negotiations with the Central Bank to seek authorization of the purchase of a portion of the Philippine debt. Both parties set the terms and agreed on the mechanism and schedule for the eventual debt exchange;

- Negotiations with Debt Holders: When the formal agreement between WWF and the Central Bank was obtained, WWF negotiated a favorable discount price for the purchase of the agreed amount of an eligible Philippine Government debt from a willing commercial seller. WWF informed USAID once the negotiations were completed;
- Purchase and Cost of Debt: Upon completion of the negotiations, WWF acquires the debt at the lowest possible price, reflecting the full discount of such debt in private commercial markets;
- Prompt Conversion of the Debt: Upon completion of the purchase, WWF redeemed the acquired debt at the Central Bank in exchange for Philippine pesos. WWF was not allowed to retain the acquired debt for speculative purposes or exchange the debt of one country for the debt of another country. Immediate redemption at the Central Bank was required. Once

redeemed WWF required the monetary authorities to deposit the proceeds in an interest-bearing account. WWF then held the fund in trust for FPE; and

- Interest Earned on Local Currency Obtained from Debt Exchange: The interest earnings on the redeemed proceeds were to be used for purposes of operating the interim grant program, for the operating costs of the Foundation for the first year and to establish FPE endowment fund.

Altogether, the endowment fund took about three years to create, from the time of the negotiations between USAID and the DENR in 1990 to the eventual turnover to WWF-PBSP of the completed debt swap in July 1994.

The first swap was completed on March 6, 1992, and yielded an initial amount of US\$7.765 million, net of allocations of US\$710,000 for on-going debt-for-nature programs; US\$500,000 for the Interim Grants Program; and US\$145,000 for the establishment of the Foundation. The first tranche was US\$5 million for the purchase of a portion of the Philippine convertible debt amounting to US\$10.2 million. An additional donation of \$200,000 from the Bank of Tokyo was added to the first tranche in July 1991 to redeem debt papers. WWF purchased US\$9,950,248.76 from Lazard Freres and Co. (worth US\$3 million) and from Goldman Sachs (worth US\$6,950,248.76).⁷ The debt papers were sold at a discounted rate of US\$.50 per dollar of debt and redeemed at US\$.90.

The second swap was completed on August 4, 1993. The total amount of USAID's pledge was worth US \$13 million. Debt papers worth US\$19 million were redeemed at US\$.72, with the US\$.18 difference to be provided by

⁸ Minutes of the 13th Meeting of the Board of Trustees. 22 April 1994.

DENR in the form of technical assistance to FPE. The terms of the first swap were better than the second due to the rising value of the debt papers in the secondary market. Also, the President of the Philippine Senate, Edgardo Angara, registered his objections to “the legality of government appropriations not previously approved by Congress.” With the possibility that the swap would be further delayed by Senate objections, the Board agreed to pursue the path of least resistance, accepting a higher price for the debt papers and a lower redemption rate for the converted debt. The discounted rate amounted to US\$.72 per dollar of debt.

The two debt swaps totaled US\$18 million worth of USAID grants, which redeemed approximately US\$29 million worth of Philippine debts in the secondary market. This was converted into Philippine pesos and deposited in the Central Bank in a special series of Central Bank notes, earning an annual interest rate of 12%. This specific provision is contained in the MOU between USAID, the Philippine Government, and FPE. To date, the endowment is worth approximately US\$22.8 million and the annual proceeds from investments in government bonds generate approximately US\$2.4 million for grant support and administration of the Foundation. Of the original USAID commitment of US\$25 million, US\$7 million still has not been disbursed. At this writing, it was not clear when that disbursement would take place, or whether it had been decided that the commitment would be revised to US\$18 million.

Table 7 illustrates the amounts available from the two swaps and their converted values.

In addition, FPE received a grant from the John D. And Catherine T. MacArthur Foundation amounting to US \$400,000 worth of

donations over four years. As a co-financing mechanism, FPE must match the donation of the MacArthur Foundation. The combined total of US \$800,000 will be made available to NGOs implementing community forestry projects.

Fundraising Methods

Because it is a relatively young organization, FPE has concentrated its efforts on establishing its operating systems, managing the income from the interest earnings of the redemption proceeds, and generating substantial projects for environmental conservation according to its stated mandate. There is, however, a goal to raise an additional US\$25 million by 1998 from other sources as well as to establish region-based financial institutions to support local projects.

Another possible source of funds FPE has explored is a similar debt-reduction mechanism with the Swiss Confederation, owed US \$135 million by the Philippines. After completion of the two debt swaps, Eugene Gonzales prepared a draft agreement between the Swiss Confederation, the Philippine Government and the Swiss Government. The agreement intended to make available about US\$25 million for projects, but FPE was dropped as the initial fund trustee for a wide consortium of Filipino NGOs. Ganapin attributed this to his view that FPE might violate its policy not to compete with the other NGOs. If FPE competed for US\$25 million from the Swiss debt conversion, the assets of the Foundation would have doubled, making it the single largest grant-giving organization in the Philippines.

The mission of FPE “is fund-facilitation, not fundraising,” Ganapin says. “This policy

makes it easy for FPE to distinguish those donors who traditionally give money to NGOs. FPE should not go to those sources...[if] other NGOs are already accessing funds from them, we should not compete and access these funds.”

Financial Management

Under the MOU, FPE is not allowed to spend more than 20% of its annual interest income for operational costs; 80% goes for project support. According to Villavicencio, “for the first two years, capital expenditures have been sourced from the eighty percent for projects to help build up the office.” Such items as computers, photocopying machines, vehicles and office repairs constitute capital expenditure items. For 1994, an additional 1.5% has been allocated for capital expenditures; in 1995, this figure rose to 4%. Capital expenditure items are now sourced from the 20% administrative cost, a decision arrived at in the December meeting of the Board in 1996.

FPE’s budgetary cycle follows the calendar year and is presented to the Board for approval annually. Each unit prepares a budget, which is reviewed by the Management Committee, consisting of the unit heads. For 1995, the total budget requirement for FPE is US\$2.57 million, of which 78% is allocated to grants programs, 4% to capital expenditures and 18% to administrative costs.

Technical Assistance with Financial Management

Under the terms of the MOU, it was required that FPE enter into a financial services contract once the turnover of the funds from

WWF was accomplished. To comply with this requirement, the Board of Trustees solicited bids from various financial services firms and hired Joaquin Cunanan and Co. between June 1994 and June 1997.

This conditionality was in view of USAID’s concern that “the fund is USAID’s largest endowment, therefore, adequate guarantees need to be in place for its prudent management.”⁸ Under the terms of the contract, the contractor provides controllership services in the form of general accounting, investment portfolio monitoring, budget management and project cost management. The controller was to set up the accounting and budgeting systems of FPE over the three-year period, by which time the Foundation should be able to manage its funds adequately.

With the signing of FPE controllership services with Joaquin Cunanan & Co., turnover of the endowment from WWF to FPE took place on June 30, 1994. The expected amount was US\$24.52 million, to be deposited in “different placements, composed of Central Bank notes at the Bangko Sentral ng Pilipinas and special time deposits at the Philippine National Bank.”

To protect the endowment, a fidelity bond was issued to cover the employees of the controllership firm and the six Foundation officers who will have access to or hold responsibility over any financial transactions related to the account. This bond ensures that, should any employee of the controller firm or the Foundation abscond with the money, the Foundation will file a claim against the controller and be reimbursed by the insurance firm.

Investment Management of the Endowment

With the turnover completed, the Board proceeded to tackle the issue of investing the proceeds from the endowment (approximately US\$2.5 million). The endowment itself was converted into Philippine Pesos and deposited in a special account at the Central Bank of the Philippines. The FPE is charged with investing the proceeds from this special account. Concerns in managing the endowment proceeds arose from sudden fluctuations in the treasury bills market, from 13% to 8% over a two-month period in 1993. These fluctuations resulted in a net loss of between US\$160,000 and US\$200,000.

At the end of 1994, Nasoles, manager of the finance Unit, presented the Board with several investment options:

- One-year open-ended tenure within which FPE can diversify and lock certain portions of its investment;
- 80% fixed income on treasury bill and other government securities; 20% in equity investments, short-term, high-yielding, but high risk; and
- Placements in financial institutions with tax exemption privileges for nonprofit institutions.

Investment management of the unreleased portion of committed grants (the “float”) totaling approximately US\$1.88 million was also discussed.

Discussions took place in late 1994 on the best option for investing the endowment and its proceeds. In December 1994, the Finance and Administration Committee members agreed on the second option above. The Committee also decided to come up with a position

paper, discussing the merits of transferring the endowment from the Central Bank to portfolio management institutions, in order to increase earnings from the endowment.

Conclusion

Although it may be early to make judgment on FPE's performance, certain events and processes undertaken provide insights which could be valuable to other similar initiatives.

Lessons Learned

First, the process of establishing the FPE underscores the valuable lesson that good intentions must be bolstered by commitment from credible individuals, if efforts are to succeed. Founding members gave time and energy, particularly during the early days, to “midwife” the creation process and nurture the early stages of its formation. The founding members continued as Board members both during the interim and regular phases, providing valuable continuity during a time when structures had to be put in place and the grant-giving process set in motion.

Unity and a general commitment to make the negotiations work, including the withdrawal of an original founding member in order to prevent the negotiations from breaking down, was instrumental.

The FPE's organizational phasing was a positive feature, with the two-year interim phase providing the Foundation with a “learning curve.” This helped attain a level of comfort among four sets of actors — USAID officers, NGO representatives, government representatives, and expatriate technical assistance experts — and also helped FPE identify a more focused funding agenda. Finally, the interim period likewise offered FPE maneuverability in obtaining the best possible rates for the debt swap.

FPE also provides important lessons in terms

of a democratic decision-making culture. The highly consultative process of setting it up and the consensual practice of grantmaking reflect the principle of popular participation. This process provided the opportunity for previously marginalized groups to obtain access to much-needed resources — access which they might not otherwise have attained if FPE did not undertake lengthy consultations throughout the country.

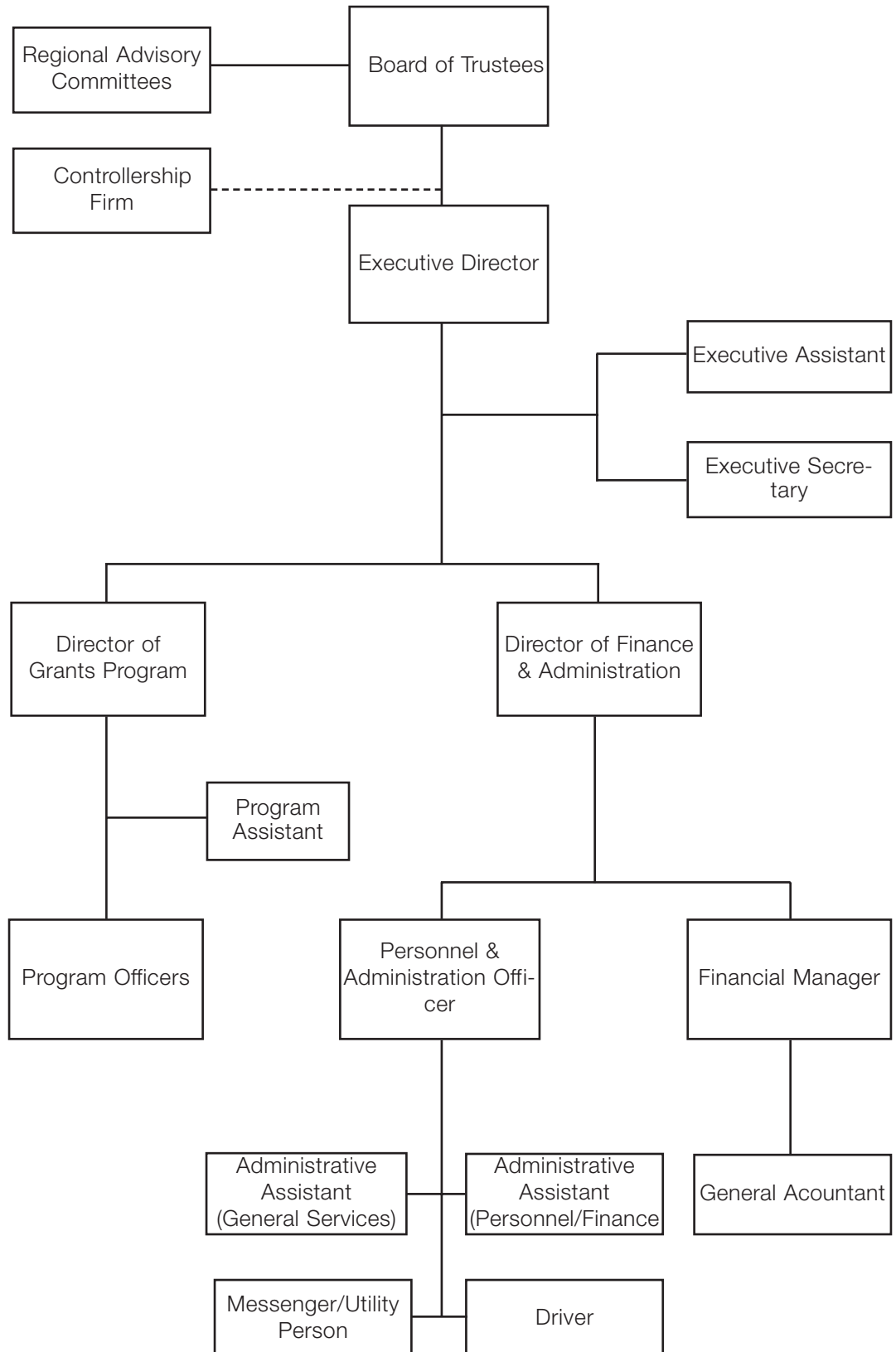
The overall contribution of FPE to the environment of local philanthropy cannot be overstated. In a society where resources are scarce, particularly for such concerns as biodiversity conservation, FPE's role in expanding the public's awareness is crucial. It is by now a general consensus that such initiatives contribute substantially to “social capital formation,” a process that ensures that prosperity for the general citizenry is pursued, that government remains accountable, and that local action is supported.

Finally, and perhaps most importantly, FPE contributes to the promotion of a civic culture as reflected in its decision-making structures and as insisted upon by the NGO representatives during the Foundation's inception phase. A cross-sectional representation of NGOs and people's organizations, plus advisory councils at the local level and a pool of experts to draw from, stimulates participatory practices and consensus-building. It enriches and expands the perspectives of those involved, given the technical and social character of the Foundation's mission.

Challenges

The most important challenge faced by FPE today is the sustainability and sound management of its endowment. Continued investment

Annex 1: FPE Organizational Chart



in government securities could prove unstable should the macroeconomic situation change, as the endowment is tied to the performance of the Philippine currency. Should there be a drastic devaluation of the peso, the endowment's value would be severely diminished, threatening its continuity. A more diversified strategy could be explored, such as investment in offshore banking or speculation in alternative currencies with higher yields.

A second important challenge facing FPE is internal governance. Board members come from a relatively small community of NGOs, and this situation hampers objectivity in grant-making, despite official safeguards. The current Board includes a potential grantee whose proposal was taken up in previous Board meetings. Although the policies were enforced and the potential grantee left the room during deliberations, informal "back room" influencing processes could not be avoided. Such subtler forms of lobbying can only be prevented altogether if the Board composition is expanded and/or changed in favor of non-affiliated individuals who have no stake at all in FPE.

A further challenge has to do with the Executive Director's position. Ganapin, former Executive Director, left FPE two years before the end of his contract, and accepted a government offer to rejoin DENR as Undersecretary. If the Foundation wishes to attract individuals of exceptional talent and commitment to philanthropic work, it will have to seriously address the opportunity costs that accompany such a choice and develop a compensation structure that provides the best possible option. This issue is relevant to the staff also, many of whom have left for international agencies, whose compensation structures were more attractive than that of FPE.

A further issue related to Ganapin's departure was the continuity of the programs, particularly the proactive or non-site focused program strategy, which was considered his brainchild. It is hoped that the staff turnover will not adversely affect grant-giving function in any category.

Finally, FPE faces the challenge of making "biodiversity" a public issue. Community-based programs in themselves are already difficult to develop and sustain. Biodiversity, being a highly technical concern, needs to generate a broad-based constituency to ensure success. Combining community approaches with biodiversity conservation is a formidable task. As a foundation, the FPE might need to expand functions beyond grant-giving and take on the responsibility of developing an impact in the public consciousness as part of its philanthropic mission. Certainly, this will have implications for its mission, vision, and organizational structure. In this regard, the campaigns of organizations such as Amnesty International or UNICEF to direct public awareness could be instructive for the FPE.

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