



# **Building and Managing Endowments**

## Lessons from Southeast Asia

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# Purpose of the Study: Explorations in Endowments

## Introduction

Across Africa, Asia, and Latin America, citizen participation is a growing and vital force for social change. Through donations of time, energy, materials, and money, citizens – acting usually within the space called civil society – are reducing poverty and increasing equity in their communities. While organizations within civil society vary, locally managed organizations that successfully bridge divides between communities and resources (financial, intellectual, human, and other) are having a significant impact. These organizations are distinct from other non-governmental organizations (NGOs) because, as bridging organizations, they mobilize and facilitate the transfer of financial resources to NGOs and other more informal associations while also convening stakeholders around critical issues and building the capacity of civil society. Although the number of such bridging organizations remains small, they are nevertheless helping to support, strengthen, and sustain thousands of small and large civil society initiatives.

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

With the support of the Sasakawa Peace Foundation, The Synergos Institute has had the opportunity to expand the field of understanding of these organizations in Southeast Asia and specifically their efforts to achieve financial sustainability through building endowments. This paper presents an analysis of the experiences in endowment building and management of four foundations in the Philippines and Indonesia.

## What Is an Endowment?

Simply expressed, an endowment is a collection of funds managed by an organization for the charitable purposes specified by that organization's governing body and donors. The funds are expected to remain intact either in perpetuity, for a defined period of time, or until sufficient assets have been accumulated to achieve a designated purpose. It is most often expected that the endowment's purchasing power will grow over time and that it will provide regular earned income over the lifetime of the organization.

While the concept of an endowment embodied in this description may be most familiar to foundation executives in the United States, Canada, and parts of Europe, an increasing number of civil society leaders in Africa, Asia, and Latin America are now gaining direct experience in the creation, management, and growing of endowments.

In most contexts, endowments are perceived to bring great benefits to organizations by:

[P]roviding a secure base of resources which partially alleviates the need for raising core support, reduces dependence on specific funding sources and facilitates long-term financial planning. Organizationally, an endowment can create a sense of permanence that strengthens an institution and its stakeholders, enables increased attention to achieving long-range program objectives, and fosters programmatic flexibility in working towards these goals. (Gaberman 2001, p.1)

While endowments can offer these advantages, every organization needs to consider if an endowment is an appropriate strategy for meeting its financial needs and social mission. Raising an endowment may be too expensive for some organizations and also very time-consuming. The process requires significant attention and expertise that the organization may not have on its staff and board. When granted by an external agency, an endowment may have various regulations and rules associated with it to which the receiving organization needs to adhere, some of which may be difficult to follow over time. Moreover, an endowment may not meet the income generating expectations of the organization soon enough. While an endowment may provide financial protection, sluggish markets or countries with a weak culture of philanthropy may inhibit an endowment's growth potential. Furthermore, in some contexts it may be difficult to justify to potential donors that it is wise to save for tomorrow when there is so much need today.

## Learning From the Experiences of Other Organizations

The Synergos Institute has published a series of case studies on organizations' experiences with endowments in Southeast Asia; four of these have been analyzed for the purposes of writing this paper - three from the Philippines and one from Indonesia. In three of the four cases, the organizations were endowed by foreign donors; in the other case the foundation

was spun off from corporate resources. This paper analyzes each of these studies to identify common themes in endowment creation, including answering questions such as: What is required for an endowment to be established? What are some of the key influencing factors in endowment building? How can an organization grow its endowment and leverage it for maximum impact? What is required for effective endowment management?

Synergos gratefully acknowledges the financial support of the Sasakawa Peace Foundation, the time and input of the board and staff of the Foundation for the Philippine Environment, Foundation for a Sustainable Society, Inc., Jaime V. Ongpin Foundation, Inc., and KEHATI, as well as Eugenio M. Gonzales for researching and writing this study.

# Building and Managing Endowments: Lessons from Southeast Asia

Eugenio M. Gonzales

## Introduction

This paper provides an analysis of the experiences of organizations in Southeast Asia in creating, building, and managing endowments as mechanisms for their financial sustainability. The organizations studied are:

- Foundation for the Philippine Environment (FPE)
- Foundation for a Sustainable Society, Inc. (FSSI), Philippines
- Jaime V. Ongpin Foundation, Inc. (JVOFI), Philippines
- Yayasan Keanekaragaman Hayati Indonesia (KEHATI), the Indonesian Biodiversity Foundation.

The basis for this paper's analysis comes from case studies written on each organization as well as interviews with staff and trustees of each foundation. While each case study presents details on the history, mandate, and programs of the foundations studied, this paper draws lessons on the financial policy and strategic aspects of endowment building across all four cases. It also makes recommendations useful for organizations and official and private donors in similar circumstances. This study does not intend to compare and assess the performance of the four foundations' endowments.

In the first section, endowments are generally described, defined, and illustrated according to the basic flow of funds and components. Summary information on the four case studies is then presented in the second section. The main body of the study analyzes the basic requirements as well as the influencing factors involved in setting up an endowment. Lessons and insights are drawn from the analysis, particularly those related to success factors and challenges. Finally, the paper makes recommendations and conclusions on the potential role of private and government donors in building the financial sustainability of such organizations.

## Endowments for Financial Sustainability

With the decrease in worldwide official development assistance (ODA) starting in 1993-94 and the Asian financial crisis in 1997, Asian nongovernmental organizations (NGOs) have had to look for more creative ways of generating resources to sustain their mission. While governments and donors recognize civil society's increasing importance in development, this has not been matched by a commensurate increase in financial support for civil society organizations. Endowment building is a strategy that more and more organizations have thus been exploring as a long-term financing strategy.

Winder (1998) defines endowments as "permanent assets – money, securities, or property – that are invested to earn income that is used to support an organization's activities." Horkan and Jordan (1996) clarify that the terms "trust," "capital fund," "sinking fund," and "endowment" describe similar financial arrangements. For the purposes of this paper, an endowment refers to a capital fund managed by an organization for the purpose of supporting activities that help achieve its mandate.

In 1997, The Synergos Institute conducted a survey of 77 organizations from Indonesia, Singapore, Malaysia, and the Philippines. This survey demonstrated that about half of the respondents have created endowments. Sixty-four percent of the endowments were less than US \$1 million in size. The largest of these were established by grants from ODA agencies and are among the cases discussed in this paper: KEHATI, FPE, and FSSI.

Endowments have historically been set up to provide a continuing stream of funding for a specific purpose or activity. In universities, professorial chairs are supported by individual or corporate donors to honor selected professors or to enable them to conduct academic work in a specified field. Research endowments provide grants for applicants to conduct specific studies. Some of the largest private grantmaking institutions have their own endowments that provide funds for their grants and operating expenses.

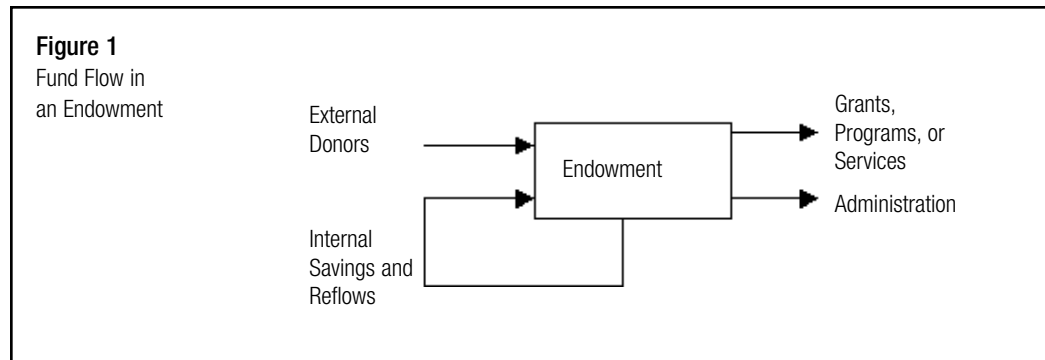
In an endowment, a definite amount of funds (or assets) is invested for the purpose of generating income that is later given to a recipient. The recipient may be a grantee (such as an NGO, or people's organization, PO), an honoree, an awardee, or, in some cases, a borrower. The approval and release of funds to a recipient are usually governed by guidelines or programs adopted by a body, often a Board of Trustees, to whom the endowment is legally entrusted. Laws, rules, and regulations governing endowments may differ from country to country. In most cases, however, the board is legally responsible for the endowment.

Part of the income from an endowment is also used for administrative activities to ensure that programs and guidelines are implemented properly and that the endowment's finances are accounted for. Sometimes, the income can fund program activities implemented by an endowed organization's own staff. This is the case with operating organizations that provide services in addition to grants or credit.

The initial contribution that establishes an endowment usually comes from external sources. Bilateral donors, private foundations, corporations, wealthy individuals, and the general public can donate to endowments (Winder 2000). ODA donors can potentially get

more long-term public relations mileage from contributing to an endowment than to a finite project. Not only are the donors forever a part of the endowment's history but they are also contributing to every project that the endowment supports, in effect. While these external sources are often emphasized in the literature on endowments, internally generated savings and repayments from previously disbursed loans to beneficiaries may also serve as initial capital for an endowment. For organizations engaged in investing and lending, especially through microfinance programs, these repayments can be substantial. In this paper, repayments will be called reflows.

Figure 1 is a simplified diagram of the flow of funds in an endowed organization:



## Beyond Sustainability

In addition to enabling grantmaking, an endowment allows for:

- autonomy: an endowment can increase an organization's independence from funding trends outside of its control
- leveraging: an endowment can be used as a basis for acquiring additional funding (Winder 2000).

The empowerment that an organization feels as a result of these realities springs from the fact that an endowment serves as a substantial and tangible financial asset from which additional resources can be generated.

Organizations in Southeast Asia have historically been funded by grants specifically for delivering services to their beneficiaries. This meant that they were not allowed to set aside any funds to start building their own reserve of financial assets. Moreover, when the grants dry up, the organizations may be forced to shut down. With a properly managed endowment, however, organizations can sustain their services even after their donors stop funding them. In the context of declining ODA, the four cases demonstrate how their endowments can carry them through hard times and even increase funds available to their beneficiaries through leveraging. This would have been impossible if they did not have such a financial asset. They have become legitimate co-financiers through the income created by their endowment assets.



Dependence on grants can also threaten the autonomy of any organization as grants are not reliable long-term sources of funding. All four foundations studied in this paper can deal with donors from a strong and independent position precisely because they have an endowment. One changed its long-standing investment advisor that its donor had selected, for example. Another stipulated that its endowment donors cannot hold voting positions on their board. Because they have an asset to fall back on, these organizations are not forced to give up their autonomy to donors just to access funds. Of course, dealing with the original donors required more skill and caution during the negotiations.

Weatherly emphasizes that endowments are empowering even as they build local capacity (1996). Through them, stakeholders are provided a means to participate in the management and decision-making over significant funds intended for their society's development. He also envisions strategic roles for organizations with endowments; acting as conveners of participatory dialogue on critical priorities and as policy advocates at the national level. This is consistent with what we shall see later as the long-term nature and mandate of endowments. The performance of these roles, however, depends ultimately on the financial, technical, and social resources that an endowment is able to marshal.

## **The Four Foundations**

All four foundations analyzed in this paper set up their endowments in the first half of the 1990s. The context of their establishment was the first major decline in global ODA that occurred in 1993-94, including in Southeast Asia. It can be said that the endowments were established at least partly in response to that decline.

### **Foundation for the Philippine Environment**

In 1992-93, FPE was created and endowed through debt-for-nature swaps that raised US \$21.8 million in local currency. Of the total amount, the United States Agency for International Development (USAID) contributed US \$21.7 million while the Bank of Tokyo contributed US \$119,590. These amounts have since declined substantially because the bulk of the endowment was invested in local currency, the Philippine Peso (PHP), which lost half of its value against that of the US dollar.

According to its Articles of Incorporation, FPE's stated purpose is "to contribute, encourage, assist, and provide technical, managerial, and financial support to non-governmental organizations, people's organizations, communities, and others for environmental protection, natural resource conservation and management, and sustainable development." It provides grants to NGO and POs to strengthen their capacities for natural resource management in general and biodiversity conservation in particular.

Thirty-four percent of its endowment is now invested in foreign currency and the remainder in Philippine pesos. While its endowment's peso value has steadily increased since

its inception, growth has not been enough to offset inflation. From 1994 to 2001, the endowment grew from PHP 566 million (US \$10.67 million) to PHP 719 million (US \$13.56 million) for an average annual growth rate of 3.86 percent.

Given these constraints, the foundation officials decided to leverage the endowment to raise around US \$400,000 in additional funds for its grantees.

#### **Foundation for a Sustainable Society, Inc.**

*Experience shows that while endowments enable grantmaking, they can also increase funding autonomy and act as a leverage to acquire additional funding*

FSSI was created and endowed in August 1995 through a bilateral debt conversion agreement between the Swiss and Philippine governments. Approximately US \$17 million in local currency was deposited by the Philippine government into the foundation. In exchange, the Swiss government cancelled US \$34 million worth of Philippine government debt. Similar to FPE's case, the US dollar equivalent of FSSI's endowment in Philippine pesos has declined due to devaluation.

The organization provides loans, equity, grants, special deposits, and guarantees to NGOs, POs, and small entrepreneurs engaged in sustainable enterprise – ecologically sound, economically viable, community-oriented projects. Special deposits are made into cooperatives or small banks to enable them to lend out more funds. Guarantees are given to organizations to enable them to borrow from commercial banks, even if they have limited collateral. Around 90 percent of FSSI's assistance is in the form of loans. This has enabled it to increase its endowment more than if it provides grants alone. It has also leveraged more than US\$ 300,000 worth of grants from other donors.

From August 1995 to December 2001, the foundation's endowment grew from PHP 454 million (US \$8.56 million) to PHP 622 million (US \$11.73 million) for an average growth rate of 7 percent per year. This was barely enough to offset inflation, which was at roughly the same level then. Around 18 percent of FSSI's endowment is invested in foreign currency.

#### **Jaime V. Ongpin Foundation, Inc.**

The Benguetcorp Foundation, Inc. was established in December 1980 as the corporate foundation of the Benguet Corporation – one of the largest mining companies in the Philippines. In 1987, it was renamed the Jaime V. Ongpin Foundation, Inc. in honor of the first Filipino president of the mining company. In the 1980s, JVOFI mainly served the communities surrounding the mine sites of the mother company. In the 1990s, the foundation gradually became independent of the corporation. Now, all of its projects are in communities that are not related to Benguet's mining activities.

Consistent with its original vision to build “self-reliant communities capable of harnessing resources for equitable development” (Garilao and Tuparan 2003), JVOFI implements microfinance and environmental projects and provides training and consultancy services to communities and local governments in the northern regions of the Philippines.

The organization established its endowment in 1991 by setting aside PHP 3.4 million (US \$64,150) in savings to a restricted account. Through interest earnings, annual transfers of savings and reflows from earlier loan projects, the account grew to a peak of PHP 17.1 million (US \$322,641) in 1997. In that same year, however, JVOFI's major grants (from USAID, the Philippine Department of Health, and Benguet Corporation) ended. This necessitated withdrawals from the endowment to cover program expenses bringing it to its lowest value in 2000 at PHP 12.1 million (US \$228,301). As of October 2002, the fund had grown back to PHP 13.4 million (US \$252,830), all of which is in local currency.

From 1991 to 2000, JVOFI leveraged PHP 140.6 million (US \$2.65 million) from local and foreign donors. This is more than ten times the value of its endowment.

### **KEHATI, the Indonesian Biodiversity Foundation**

KEHATI was established in 1994 and endowed in 1995 through a US \$16.5 million grant from USAID. In addition to the endowment grant, USAID also pledged an additional US \$2.5 million to cover the foundation's operating costs and any technical assistance or consultancies needed to help it establish effective operations between 1995 and 2000 (Maxim *et al.* 2003). While in its early years KEHATI focused on funding research on biodiversity, it now emphasizes funding community groups and NGOs that conserve and use local resources in a sustainable manner. It has adopted a long-term vision that emphasizes multi-stakeholders and multi-year budgeting, and a focus that integrates community with conservation. Community empowerment is at the core of this approach.

The entire endowment fund is in foreign currency and managed by financial institutions in the United States. In this case, because of the devaluation of the Indonesian Rupiah, the endowment's value in local monies has increased by more than three times. From 1995 to 1999, the endowment's US Dollar value grew at 12.8 percent per year peaking at around US \$25 million in 1999. It has since decreased, however, to settle at approximately US \$19 million in late 2002.

KEHATI has launched a fundraising strategy to meet its commitment to contribute US \$4.7 million to the endowment by 2005. It has also leveraged a significant amount of funds from philanthropic, corporate, and government donors. At present, it is exploring the possibility of using debt-for-nature swaps to augment its endowment.

## **Endowment Creation: Basic Requirements and Influencing Factors**

In this section, the basic requirements needed to establish and grow an endowment are assessed based on the experience of the four case endowments and writings by Weatherly (1996) and Horkan (1996). Factors that affect the final shape and form of the endowment are also identified.

## Basic Requirements

Five requirements for establishing and growing an endowment may be identified:

### *Long-Term Purpose*

Endowments are meant to last because they serve a long-term purpose. There are no such things as short-term endowments. Environmental rehabilitation, curing AIDS, or poverty reduction are all long-term goals that require long-term financial support. All four endowments studied in this paper have goals that are long-term in nature.

### *High-Priority Item*

Given a particular society's (or donor's) many concerns, an organization needs to determine priorities and allocate its resources accordingly. Ideally, endowments begin with a large initial contribution; this isn't possible if its purpose is not a high priority item in the donor's or recipient's agenda, of course. The three foundations that received a large initial contribution – FPE, FSSI, and KEHATI – have been addressing environmental concerns; two – FPE and KEHATI – have been focusing on biodiversity conservation. These are high priority issues for donors and countries in Southeast Asia especially.

### *Policy Openness*

Policy that is conducive, or at least not averse, to building an endowment is another important prerequisite. The programs of USAID and the Swiss government did not specifically intend to establish endowments for FPE, KEHATI, and FSSI. But they did not prevent them either. USAID commissioned a number of studies in the 1990s that were supportive of endowments, some of which are cited in this paper. In JVOFI, even though the mother company did not explicitly make a donation to set up an endowment, the company (which was represented in the foundation's board) did not object to the establishment of the fund.

### *Legal Vehicle*

If there is a donor, there must be an entity that is legally accountable and politically acceptable to the donor to receive and manage the funds. In three of the four cases, the donor was a member of the board of trustees, albeit with varying levels of power. In the fourth case, even though USAID is not on KEHATI's board, the terms of the Cooperative Agreement state that all funds selected for investment be formally registered with the US Securities & Exchange Commission.

### *Fund Availability*

A significant amount of funds needs to be available to establish an endowment. In the three relatively large endowments studied (FPE, FSSI, and KEHATI) at least US \$16.5 million had to be available as a single grant. Of course, this need not always be the case. JVOFI needed only PHP 3.4 million (US \$64,150) to start up its endowment. Significant annual

contributions were necessary, however, to increase this to PHP 17.1 million (US \$322,641) over six years.

The above items are by no means mutually exclusive. Funds are not usually available if a program is not high in the priorities of the donor. It is the appropriate combination of all of the above requirements that makes the creation of an endowment feasible.

### **Influencing Factors**

In addition to these requirements, there are a number of influencing factors that can help create appropriate conditions for realizing an endowment. Not all of the above requirements may be in place when the creation of an endowment is being sought. In such contexts, however, there are a number of influencing factors that may be realized to create the conditions conducive to attaining these requirements.

#### *Socio-Political Pressure from the Recipient Side*

Donors (usually government bureaucrats) are constantly under pressure from social groups, politicians, NGOs, and others to deliver assistance in a high-profile, high priority area (for example, the environment, AIDS, or poverty). This was the context behind the creation of FPE, FSSI, and KEHATI. In FPE's case, both the Philippine Department of Environment & Natural Resources and Philippine environmental NGOs were lobbying the US Congress and USAID to set up an environmental endowment from 1989 to 91. In Indonesia, Emil Salim (who had just stepped down as Minister of the State Ministry of Population & the Environment) and a group of prominent citizens from business and civil society set up KEHATI and negotiated with USAID for its endowment. In FSSI's case, the Philippine's largest NGO coalition, CODE-NGO, facilitated the consultations that resulted in the proposal to the Swiss and Philippine governments to set up the endowment.

#### *Socio-Political Pressure from the Donor Side*

In the case of FPE and FSSI, an NGO coalition in the donor country supported the NGO constituencies that campaigned for the endowments in the recipient country. The Philippine Development Forum, based in Washington, DC, provided crucial support to the environmental NGOs lobbying the US Congress. Similarly, the Swiss Coalition of Development Organizations backed CODE-NGO's endowment proposal for FSSI through representations and communications with the Swiss Federal Office of Foreign Economic Affairs.

#### *High-Level Mandate from the Donor Side*

KEHATI's endowment was a direct result of the Tokyo Declaration signed by US President George H.W. Bush and Japanese Prime Minister Kiichi Miyazawa in 1992. Indonesia was chosen as a pilot site for US-Japan intergovernmental cooperation on the environment and KEHATI was selected to receive a USAID endowment for biodiversity conservation. The mandate for FPE's endowment had its origins in the 1988 Philippine Assistance Plan

supported by the United States and other donors in order to bolster the fledgling Aquino government in its transition from dictatorship to democracy. Part of its plan was the Natural Resource Management Program that was later funded with US \$125 million by USAID in 1990. FSSI's endowment came from the Swiss Debt Relief Facility of 1991. Swiss churches and NGOs and their partners from the global south campaigned for the passage of this measure starting in 1989. The Swiss government allocated US \$300 million to it.

A similar set of influencing factors was present in JVOFI's case. The foundation's board included both donor and recipient interests, both of which agreed to the proposal for an endowment. The top management of the corporation was active on the board and backed the foundation's efforts with corporate support.

Collectively, these influencing factors help tip the scales in favor of an endowment.

## The Endowment Process

Once the proponents have succeeded in using such influencing factors to put the basic requirements in place, three distinct stages follow:

- creating the endowment
- endowment-building: growth
- endowment-building: use and reflows.

### Creating the Endowment

Endowments are established through one major donation or several donations. Three of the four cases – FPE, FSSI, and KEHATI – were set up with one major donation from a bilateral donor (USAID) to FPE and KEHATI and the Swiss and Philippine governments to FSSI. JVOFI built its endowment over time from internal sources.

In the three cases in which bilateral donors funded the endowments, local NGOs and coalitions were involved in convincing their governments and donors that the endowments would serve the public good. All three conduct grantmaking, although FSSI is a largely lending institution. The NGOs and coalitions who worked for their establishment did not necessarily directly benefit from them afterward, although some have participated in their governance.

The amounts involved were quite significant and due diligence was therefore required. Studies, planning missions, and consultations were conducted. Intense negotiations involving NGO coalitions and recipient and donor governments on the legal documents to govern the three endowments preceded the actual provision of funds. For FPE and FSSI, negotiations on debt redemption discounts were further required. In all cases, donors needed to be convinced that the endowments would not dissipate. Systems of reporting, transparency, accounting, and accountability were incorporated into the foundations' by-laws and agree-

ments covering the donations. Although the boards are dominated by NGO personalities, a few government representatives and independent individuals are included.

### **Building the Endowment: Growth**

Although the initial donations establishing the endowments were significant in the case of three foundations studied here, these cases and JVOFI nevertheless emphasize that efforts must be made to ensure the fund's continued growth. Given the enormous need for funding environmental conservation and management, FPE and KEHATI are actively trying to increase their endowments. KEHATI is also fundraising from the corporate sector. While both are having some success in leveraging funds from private foundations and government donors to increase the resources available to their grantees, staff indicate that it is generally difficult for them to get donations to increase their endowment. Donors usually want to make a direct contribution to, and have a direct impact on, a specific project.

As a lending institution, FSSI expects repayments from its borrowers. Its continuing challenge is to move an increasing portion of its corpus directly into sustainable enterprises rather than having it in the hands of its fund managers. It has not specifically raised funds to build its endowment. The foundation has leveraged funds, however, from private foundations interested in co-financing some FSSI projects.

JVOFI staff is focused on improving its delivery of services and encouraging its beneficiaries and partners to raise counterpart funds. They are not actively asking for contributions to their endowment. With the effective delivery of services, however, the organization is contributing to building its track record and attracting more funders. In each year of the 1990s, JVOFI generated program and operating funds equal to the amount of its endowment, on average. They probably would not have attracted the same amount if they had simply asked donors to contribute to their endowment.

Efficiency in operations also generates savings that JVOFI is then able to channel into the endowment. Projects with repayments, such as microfinance, are another important contributor. Interestingly, JVOFI's microfinance projects have a higher rate of return than their investments in banks. For JVOFI, focus, good management, and effective delivery of services form its endowment-building strategy.

Each of the four foundations has appointed external fund managers to manage their endowment assets; in each case these are mainly in cash or cash equivalents. They all have committees or individuals, however, who monitor the performance of the fund managers. In each case, the fund managers make decisions on the detailed investment of the foundation's assets based on the investment policy laid out by the Board of Trustees. Usually, the foundation staff directly invests only a small portion of their assets in short-term instruments.

JVOFI maintains a restricted fund that is mainly invested by its lone fund manager. A small portion is for cash flow and is managed by staff. The foundation also relies on experienced and respected financial experts that sit on its Board of Trustees.

KEHATI, FPE, and FSSI have Investment Committees that are advisory in nature. Their boards ultimately make the major investment decisions at the policy level (e.g. investment mix) and operational level (e.g. choice of fund managers and advisors). While KEHATI was initially linked by USAID to a US-based investment advisor, its Investment Committee is now recommending working with an advisor who is based in Asia and therefore able to be more responsive to market changes. Neither KEHATI's board nor Investment Committee can change the stipulation in the cooperative agreement, however, that the endowment should be invested in funds registered with the US Securities & Exchange Commission. This has enabled KEHATI to maintain the highest foreign currency valuation of its endowment among the four cases. FPE, FSSI, and JVOFI have local fund managers handling mainly local currency investments; devaluation has decreased the dollar value of their endowments.

The four foundations are growing their endowments (at least in local currency terms) using fund managers who are seen as relatively large financial institutions in the local and international context. Investment policies, particularly those regarding asset allocation among fixed income instruments and equities, are well documented and strictly followed. Only a very small, if any, portion of the endowments was put into real estate. There is very little room for speculation in the foundations' investment policy.

None of the foundations have been able to obtain donations to significantly augment their endowments yet. They have been more successful in leveraging their endowment funds to attract more program and operating resources for grantees and beneficiaries. Leveraging can have a larger and more immediate financial impact on grantees/beneficiaries, however, than trying to directly augment the endowment. Leveraging is an important point to consider in evaluating an endowment's performance and will be discussed in a later section.

Indeed, KEHATI's strong fundraising efforts demonstrate that an endowment is not a complete answer to having financial sustainability. KEHATI is seeking to diversify its donors while also developing alternative and innovative funding mechanisms. The organization's staff is also considering how funding instruments can be modified to help build its endowment.

After establishment, endowments need to grow to keep up with inflation and the demands of grantees and beneficiaries. Sound management, focus, and building a track record of effective delivery of grants or services are key to attracting more donors and co-funders.

### **Building the Endowment: Use and Reflows**

FPE and KEHATI use their endowments by making grants to NGOs and community organizations. FSSI and JVOFI are mainly lending institutions that require significant counterpart funds or equity from their partners. This assures the latter two organizations of reflows that are an additional source of funds for their respective endowments. Both are also involved in microfinance projects that are producing returns that are sometimes better than



those on the investments made by their fund managers. FSSI and JVOFI are still prudent enough, though, to work with fund managers to invest their endowment assets.

FPE has co-financed one FSSI loan. FPE hoped to fund more projects in a lending mode, but appropriate projects were difficult to find. According to KEHATI's fundraising strategy, the organization seeks to "develop non-grant instruments and a social entrepreneurship approach in program planning and implementation." Another direction is "to promote income generation through the sale of goods and services, program-related investments, and through establishing businesses related to KEHATI's specific mission." Like FPE, however, it prefers to work with and through organizations that are more familiar with enterprise-type projects where financial returns need to be monitored more closely than in environmental conservation projects.

For FPE and KEHATI, directly managing financial risk instead of leaving it to fund managers is a new challenge. Grantmaking and investing require different skills and mind-sets that are important to learn before a foundation decides to be involved in both.

## Insights

Following are various insights drawn from the case studies on the creation and building stages associated with endowments.

### Creation

In all the cases studied, the primary motivation to create the endowments came from within the foundations or NGO constituencies upon which the foundations were built. There was a conscious process of convincing donors and, fortunately, an availability of funds and policy openness to the establishment of these endowments. NGOs can always try to convince funders to set up endowments, but if the funds are simply not there or if donor policies do not allow them to set up endowments, these efforts will not succeed.

It must be emphasized that large, one-time endowment grants are rare. Rarer still are donors who will donate directly to augment an existing endowment.

The possibility of setting up endowments exists when the following factors are present:

#### *Funding Opportunity*

Funds may be suddenly available in large or small but consistently flowing amounts from donors. In the cases studied here, funds were available around the time the endowments were set up. In the cases of FPE, FSSI, and KEHATI, funds were available only for a limited amount of time. Had the NGO constituencies not worked hard for these funds when they were available, they would have lost the opportunity completely. The donors – USAID and the Swiss government – ended their related programs a few years after providing funds for the three foundations.

It is also important to note that debt swaps played a major role in setting up two of the endowments: FPE and FSSI. Although there was no similar debt swap in the Philippines from 1996 to 2001, there are new opportunities now. A debt-for-nature swap worth US \$8.24 million was signed between the US and Philippine governments on September 19, 2002 under the provisions of the US Tropical Forestry Conservation Act. FPE and KEHATI are also currently actively exploring debt swap opportunities.

In the case of JVOFI, the corporation provided an annual grant to the foundation until 1997 and the foundation's Board of Trustees made the decision to allocate a portion of these funds into a restricted account which effectively became the endowment.

### *Champions*

Champions for establishing and building an endowment are needed on both the recipient and donor sides. These champions need a constituency to support the difficult task. The KEHATI Chair, his colleagues on the board, and sympathetic individuals in USAID were the champions for KEHATI at the time of negotiations. Philippine environment and development NGO coalitions and their counterparts in the United States relentlessly campaigned for FPE to be born. The outgoing Philippine Secretary for the Environment and the USAID Country Director were the champions on the government side. In JVOFI, the foundation president, who was also an officer in Benguet Corporation, made the strategic decision to actually set aside funds for an endowment. For FSSI, the partnership and coordination between the Philippine and Swiss NGO Coalitions were crucial in convincing their governments to agree to an endowment.

### **Endowment Management**

As emphasized earlier, donors put funds into an endowment not because they want to support the endowment but because they want to support the beneficiaries of the endowment fund (most often, the grantees or recipients of credit). The more an endowment provides benefits to its grantees the more donors will be willing to support it. This support can be in the form of co-financing of projects, program funds, or direct contributions to the endowment. The last type of support is the most difficult to get from ODA agencies possibly because of the diminishing supply of aid funds combined with an increasing need to show immediate and significant results from aid programs.

To attract support from donors, organizations need to focus on two inter-related areas of management: program and financial management. Program management deals with strategy, planning, monitoring, and evaluation. Financial management encompasses accounting, accountability, controls, financial analysis, and sound investment policies and practices.

The four cases demonstrate the importance of strategic program management. Substantial board and staff time are devoted to strategizing, planning, monitoring, and evaluating outputs and impact. Significant resources are also devoted to communicating accomplishments. Without these, it is doubtful that the foundations can maintain their credibility

and leverage additional funds. Achieving targeted outputs and impacts depend on a foundation's capacity to manage its resources efficiently and effectively. Beneficiaries, donors, and the public as a whole will judge the endowment's ability to deliver on its mandate. Strong program management is needed to deliver and to prove that the organization is delivering.

Regular, externally audited financial reports are a basic requirement of endowments. These reports should reflect high quality in financial management. Perhaps more basic is the investment strategy. There is nothing worse than an endowment that is wasted because of poor investment decisions. Fortunately, the four foundations have clear investment policies that prevented the dissipation of their funds even with the occurrence of the Asian financial crisis that hit in 1997 to 1998 and the meltdown of the US economy in the last couple of years.

### **Leveraging as Strategy**

As was discussed earlier, a common strategy used by the four foundations to maximize their resources is to leverage their funds. This often means using their endowment or its income as counterpart funds to obtain grants from donors. This has enabled them to increase their grantmaking and implement more programs than if they depended solely on their endowments' income. Donors usually prefer to give grants to or through foundations that have counterpart funds. Some private donors, especially those in Europe, are able to access and pass on government funds if they can produce matching or co-financing funds. Organizations with endowments are in a good position to receive these additional donor funds and conduct leveraging.

The value of leveraging is often underestimated. In reality, leveraged funds can have a more immediate impact on beneficiaries than donations to an endowment. For example, if we assume 10 percent as a reasonable return on an endowment, getting US \$10,000 in leveraged funds is like getting an additional US \$100,000 into the endowment. Although it is desirable to build up endowments for the long term, the ability to leverage funds should be recognized as an important achievement of these foundations. This is especially true when there are other donors who are only too willing to co-finance certain projects.

In addition, leveraging can occur through international or foreign donors that are seeking to pass through funds to local foundations to do grantmaking on their behalf or who can co-finance projects with them. It is simply an easier, cheaper, and more effective means to accomplish their goals. Examples are already in place: the Global Environment Facility is a major potential source of leveraged funds, especially in biodiversity conservation. Novib (Oxfam Netherlands and a Dutch NGO), set up a US \$100,000 co-financing fund within FSSI in 2001.

It is important to define the organization's specific role within the leveraging strategy. As KEHATI begins to explore supporting community enterprise development, it is discovering that there are NGOs that have more expertise in this area and that there are many funds available from government corporations and programs. KEHATI is thus focusing more on

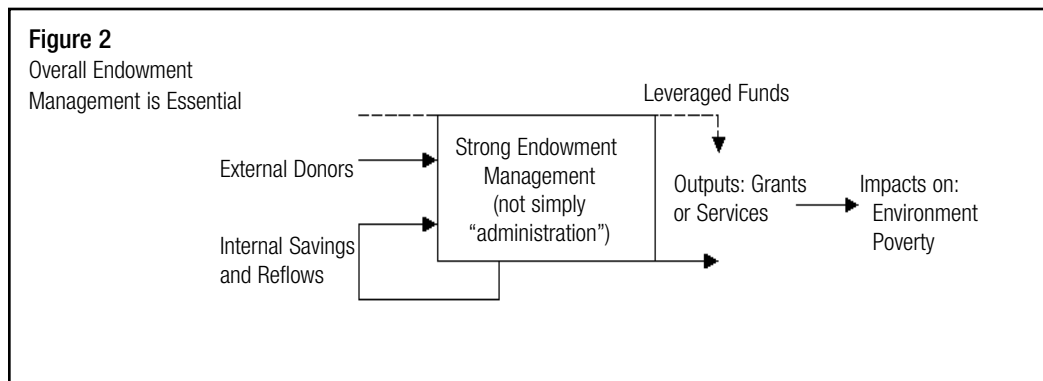
business incubation – linking grantees with technical experts and financial institutions. Even though the funds of the government programs do not pass through the foundation, the linkage they provide virtually leverages funds for their grantees.

Leveraging can also be done at the level of beneficiaries. Aside from using its endowment as a counterpart fund, JVOFI requires its partner-communities to raise their own counterpart funds. This lessens the burden on the foundation and builds community ownership of the projects.

### The End-Goal: Outputs and Impact

Ultimately, an endowment's value will be measured by the public and donors in terms of an organization's outputs and impact. This is regardless of whether the money came from the endowment, leveraged funds, or operating funds. The bottom line question is: How well did the foundation invest all its funds to deliver the targeted outputs and achieve the desired impact? Without good management systems and performance, the answer will never be satisfactory. If an organization consistently delivers its intended outputs (i.e. services to beneficiaries) and attains its targeted impact, it will attract donors and sustain its beneficiaries.

The diagram in Figure 1 may now be refined to reflect the foregoing analysis.



## Lessons and Recommendations

The following lessons and recommendations are based on the experiences of the four foundations studied in this paper and are intended to be helpful to foundations, NGOs, and donors alike.

### Lesson: Endowment Creation

Bilateral donors and large private philanthropic foundations in the North remain the main source of large one-time grants for endowments. Their smaller grants can also be the source of savings and reflows that can slowly build endowments for organizations in Southeast Asia.

The latter track can be maximized if donors allowed grant savings instead of requiring grantees to either use up all funds or return savings.

Debt swap opportunities in the Philippines and Indonesia are available again after the relative lull of the late 1990s. This could provide organizations in these countries a chance to access larger amounts of funds that can be used to start or augment endowments. Donor-creditors should publicize the mechanics of these programs so that more organizations can avail of the benefits.

Constituencies and motivations are critical though. Organizations need to identify and develop their champions in endowment-creation and debt swaps. These champions need to work with champions on the donor side to successfully design and conclude endowment or debt swap agreements.

It must also be emphasized that organizations should take a proactive stance on policy issues. When there is a policy averse to endowments, they should try to change this through dialogue, lobbying, and generally challenging donors to seriously contribute to long-term financial sustainability strategies by setting up endowments. This, of course, presumes that a track record and transparent management systems exist within the advocating foundation.

#### **Lesson: Endowment Building**

Endowments, and funds received in general, are inputs. Management transforms these and other inputs into tangible outputs and impacts. Sound management is therefore critical. It can even produce internal sources (savings and reflows) of funds for an endowment.

Leveraging is a basic strategy for endowments. Donors and foundations should search for, coordinate with, and leverage the funds of other donors, foundations, and financial as well as relevant technical institutions. Cases on leveraging can be documented and shared with donors, NGOs, and foundations.

Clear and specific investment policies are essential. Guided by such policies, all four endowments grew, at least in local currency terms. Still, there are pressures from devaluation and inflation that have to be addressed in the long-term by an endowment-building plan.

An ongoing fundraising strategy like KEHATI's is needed even if a foundation already has what seems to be a substantial endowment. The needs of grantees and beneficiaries cannot be underestimated. Courses in fundraising may be useful for staff.

Financial experts, investment committees, and asset/fund managers are essential, but their functions have to be clearly defined. In-house and direct management of asset investment alone is not advisable. Even the largest foundations that hire staff to take charge of their investments still hire external fund managers to do day-to-day or detailed tasks associated with investment management. Therefore, it is important to build an in-house capacity to understand and monitor the performance of investment managers (boards should never condone poor performance of investment managers).

Foundations should invest in measuring, monitoring, and evaluating their outputs and impact. This will enable them to prove to donors and the public if they deserve support or

*Foundations should invest in measuring, monitoring, and evaluating their outputs and impact – this will enable them to prove to donors and the public if they deserve support or not*

not. Quantitative measures of output and impact per unit of input will be very useful not just for management but also for reporting to, and convincing, donors and the public of their good work.

Donors and foundations should always maintain a significant focus on outputs and impact as a result of their funding. While it can be easy to focus on bringing in funds, it can distort the actual picture and underestimate a foundation's achievements, especially in the matter of leveraging. Again, measurement and monitoring are needed to evaluate the effects of leveraging on outputs and impact.

## **Conclusion**

Endowments are by no means a panacea to organizations' financial challenges. They do provide a sustaining and empowering asset, however, for societal development. Endowments go beyond financial sustainability. This is probably why they cannot be created and built only through financial means. Social constituencies, champions, timing, negotiations, not to mention political and funding commitments, are needed to create an endowment. Growing an endowment needs more of the same plus sound program and financial management. In the end, however, endowments will be measured not in financial or project terms but in terms of their impact on a society's environment, health, poverty, and overall development.

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Group interview with Helen Grace Baldo, Finance Manager, Salvador Pabalan, Treasurer, and Emily Pimentel, Trustee, Jaime V. Ongpin Foundation, Inc., November 2002.

## About the Author

Eugenio M. Gonzales is an Industrial Engineer with 22 years of experience in strategic planning, project development and management, institutional development, and policy analysis. He has participated extensively in the design and implementation of four grantmaking mechanisms that have provided over US \$18 million to more than 1,000 Philippine non-governmental organizations and people's organizations in the last fourteen years. His work has covered entire project cycles, from design to appraisal, management, monitoring, and evaluation.

As Executive Director of the Foundation for a Sustainable Society, Inc. between 1996 and 2002, and as a free-lance consultant now, Mr. Gonzales has spent the last six years providing technical and financial assistance to small and medium enterprises that are community-based and environment-friendly. Mr. Gonzales is a Synergos Senior Fellow.

Before working in civil society, Mr. Gonzales taught for six years in the Department of Industrial Engineering and Operations Research at the University of the Philippines in Diliman. Concurrent with his academic involvement, he was a consultant and lecturer in various projects and training courses at the National Engineering Center, the Institute for Small-Scale Industries, and the College of Social Work and Community Development, all at the University of the Philippines. Mr. Gonzales lectured on Project Feasibility Analysis, Methods Engineering, Industrial Organization and Management, Industrial Quality Control, Industrial Statistics, and Rapid Rural Systems Appraisal.

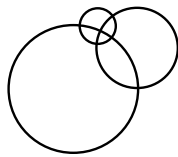
In 1991, as one of its founding board members, Mr. Gonzales helped organize the Caucus of Development NGO Networks, the largest coalition of NGOs in the Philippines. Mr. Gonzales interacts with and submits policy recommendations to cabinet-level policy-makers. He also participates in policy discussions with the heads and officers of bilateral and multi-lateral development agencies as well as international organizations.

## About Synergos

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

Our goals are to:

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



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