Chapter 6

CASES FROM THE PHILIPPINES IN INNOVATIVE PHILANTHROPY: AN OVERVIEW OF THE PHILIPPINES

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Introduction

While it could be argued that the rise of organized philanthropy in the Philippines had its impetus in the Catholic Church's appeal to parishioners to give alms to the less fortunate, today's range of philanthropic institutions operate under a multitude of strategies and reflect the breadth and diversity with which the sector has grown. Undoubtedly, the growth and change in the field has in large part been a reaction to socio-economic realities in the country. New forms of philanthropy continue to be experimented with as poverty levels remain high. While in the first three quarters of 2002 the Philippine economy exhibited a more robust growth than in the same period for 2001, in 2000 approximately 34 percent of the population, or 26.5 million people, were living below the poverty line (meaning on less than US $276 a year in the Philippines).[1] Levels of unemployment are high and investor confidence is generally weak, especially in light of sporadic terrorist bombings in the Southern region of Mindanao and the failed mutiny of nearly 200 military officers in late July 2003.

Organized Philanthropy: Past and Present

Nevertheless, the "bayanihan" spirit that Filipinos are known for means that community residents often come together to help one another. Moreover, the organizations of civil society reached new heights in the late 1960s. Against this backdrop, a few major network organizations were born in the early 1970s that have since been instrumental in building the field. In 1970, 50 corporations came together to create a business-led social development foundation. The Philippine Business for Social Progress (PBSP) has grown to more than 160 members, has worked with about 2,500 partner organizations, provided over PHP 4.6 billion (US $84 million) in financial assistance to support over 5,000 projects, and benefited over 2.5 million households. As members, corporations commit 20 percent of 1 percent of their pre tax net income to the foundation's grantmaking, programs, and operations.

In 1972, the Association of Foundations (AF) was born. It is the country's first network of NGOs and foundations and today boasts a membership of approximately 142 organizations, of which 79 are grantmaking or lending organizations. It provides capacity building and network services, forms collaborations across sectors and has recently opened an information center with databanks that serve its members' needs on a wide range of topics. In 1992, the League of Corporate Foundations (LCF) spun off from AF in order to serve corporate foundations specifically and spur more corporate social responsibility in the Philippines. It has more than 30 members that are both operating and grantmaking corporate foundations.

In 1998, the Philippine Council for NGO Certification (PCNC) was created in response to calls from national NGO networks, the Philippine Department of Finance, and the Bureau of Internal Revenue to have an accrediting body with responsibility for ensuring high standards of professionalism and accountability within NGOs and foundations (which together reach over 60,000). As of the end of September 2005, PCNC had evaluated 713 organizations; 543 have been certified and 71 were not (and the remaining 99 are taking the necessary steps to comply). PCNC has become a model for other foundation and NGO sectors in Asia struggling to build a professional sector. Several philanthropic organizations, NGO associations, academic institutions, and corporate foundations also came together in 1998 to form the Philippine Philanthropy Steering Committee. The purpose of the informal committee is to promote the growth of Philippine philanthropy.

Based on a study conducted for the year 2000 by AF and The Synergos Institute on foundations in the Philippines, 56 indigenous foundations facilitated the flow of approximately US $10.5 million in that year alone.[2] A breakdown of this snapshot indicates that of these 56 foundations, 24 are both grantmakers and lenders, 20 are purely grantmakers, and 12 make loans only. A total of 43 are both funding and operating organizations. Foundation expenditures on self-administered projects amount to 32 percent of total expenditures while grants make up 27 percent and loans 17 percent.

A majority of these foundations (68 percent) are based in Luzon where Manila, the capital, is located. Only 14 percent are in the most southern region (Mindanao) and 18 percent in the central region of the Visayas. In terms of focus areas of foundations, education and training rank highest, followed by micro-credit, community development, public health, and environment and conservation. Many of these foundations are national or regional in scope.

A strong desire on the part of the sector to see that same level of mobilization and impact born out at the community level has ignited a community foundation movement in the country. What makes this movement particularly exciting is that it is very much grounded in etching out a context for community foundations that matches the local reality. Led by AF, a study was completed in early 2003 that identified important community foundation characteristics and plotted existing organizations along that spectrum. AF continues to work with these organizations to enhance their capacity to take on a more pronounced community foundation role.

For example, the Kabalaka ("concern") Development Foundation in Negros Occidental, Philippines, which supports communities of sugar plantation workers and their families in this province, sought to transform itself into a community foundation following a decision that in order to be truly sustainable it needs to have a stronger local constituency. When Kabalaka explored different approaches to increasing its sustainability, it found the community foundation model to be most promising and appropriate (see Lighid 2002, for more). According to E. Lighid of Kabalaka, the message that it is taking to heart is that "communities should become partners rather than recipients of development."

Similarly, Pondong Batangan is a Church-led movement in the province of Batangas to encourage parishioners to save and donate their savings to a community fund for local development efforts. In fact, long before the volunteers behind Pondong Batangan had heard of community foundations, they were calling their group a community foundation believing that this simple term reflected well the purpose of the funds.

On the corporate side, LCF has a membership base that collects corporate contributions for investing in social development. According to an LCF survey of its members between 1996 and 1998, nearly PHP 1 billion (approximately US $18 million) was spent on programs in a one-year period in that time in the following areas: education (82 percent of the members participated in giving to this area), entrepreneurship (38 percent), community development (35 percent), environmental protection (33 percent), and housing and related services (33 percent).

Funding Sources

Unlike foundations in the US or Canada, most foundations in the Philippines were not created with an endowment and many in fact struggle to raise funds to support their annual grantmaking and lending activities. According to the 2000 survey conducted by AF and Synergos, the data demonstrate that while a majority of funds (57 percent) received by foundations are from international sources, the gap between international and domestic sources is growing smaller as increasing resources are being raised in the country. Of the 43 percent of funds received domestically, the largest proportion (approximately one third) came from corporations in 2000. This is not surprising given the rise in popularity of corporate social responsibility in the Philippines that began after PBSP's creation. Close on the heels of corporate contributions in 2000 was that of endowment income (at 26 percent), followed by earned income (at 22 percent). National and local governments contributed about 11 percent of domestic funds received by foundations.

Of the 57 percent of funds received from international sources in 2000, official development assistance (ODA) from foreign governments dominated in contributing nearly half of the total amount received by foundations. International foundations and NGOs contributed about another quarter each to that total. This trend does show signs of falling, however, as ODA agencies have been reducing funding to the Philippines considerably and the Ford Foundation closed its office in Manila permanently in September 2003 after more than 3 decades of grantmaking in the country.

Conspicuously absent from this list are contributions from individuals. According to a survey conducted by Venture for Fund Raising, a fundraising consultancy based in Manila, total giving by households (in cash and in-kind) varied widely, from a low of PHP 107 (less than US $2) in one remote province to PHP 2,130 (just under US $40) in the country's capital.[3] Most often, these are contributions to the church.

As the community foundation movement referenced previously reflects, the challenge now lies in raising more funds within the country and from more than just the elite few. Fundraising needs to become more innovative and strategic approaches to resource mobilization tested.

Taxation and Giving

In the Philippines, non-stock, non-profit organizations (which would be most NGOs or foundations) do not pay taxes on income received if it is used to support their declared programs. Furthermore, local donations to PCNC-certified organizations may be deducted from a donor's taxable income.

Best Practices and Options for the Future of Philanthropy

One phenomenon worth noting for its potential contribution to the growth and shape of philanthropy in the Philippines is that of mobilizing diaspora funds. One of the more interesting population statistics in the Philippines is the sheer number of citizens employed abroad, particularly in Europe and in the Middle East, who are sending remittances to their families and hometowns. According to studies by researcher J. Opiniano, conservative estimates of remittances from Filipino overseas contract workers – who number approximately 7.4 million – are between US $6 and US $8 billion a year and thus a significant stimulus to the economy. Remittances from overseas contract workers contributed 8 percent to the GNP in 1999. Increasingly, academics and development practitioners in the Philippines are seeing the tremendous potential of mobilizing diaspora philanthropy for local development.

Two examples suggest a burgeoning interest in diaspora philanthropy. The Asia Foundation, based in San Francisco founded Give2Asia to promote philanthropy in Asia and in 2000, the Ayala Foundation US was established by the Ayala Foundation in the Philippines, a corporate giving arm of the Ayala Group of Companies. Both are trying to mobilize the Philippines diaspora and others in the US who want to channel philanthropic contributions to the Philippines. The Ayala Foundation US hopes to channel US $1 million in charitable contributions to the Philippines in 2003.

The two cases presented on the following pages speak greatly to the context for philanthropy in the Philippines. Certainly, there are challenges to be overcome, including the difficulties of working in areas of armed conflict (confined to certain parts of Mindanao), recent political crises, the lingering effects of the economic crisis, and declining international sources of funding for development activity. At the same time, both cases highlight the tremendous potential there is to learn from the work of foundations in the country. Foundations are creating effective partnerships for change that work to complement rather than duplicate resources, and government, corporations, and the general public is increasingly supportive of development activity and the role of foundations in that process.

In specific terms, however, the case studies offer two different scenarios of the application of strategic philanthropy. The first is the Consuelo Foundation, which is working to improve the lives and living conditions of disadvantaged children, women, and families in the country. This case examines Consuelo's strategic philanthropic practices through the lens of its efforts to build the organizational and financial sustainability of its non-governmental and community-based partners, and to effect change through multi-sectoral, multidisciplinary initiatives. The second case is of the Peace and Equity Foundation, a relatively young organization. This case demonstrates an increasing ingenuity in how foundations in the Philippines are leveraging their assets by bridging more traditional philanthropic practices (i.e. grantmaking) with opportunities afforded by the workings of the capital markets.

Together, the two cases intend to demonstrate that in the practice of strategic philanthropy, the process of making decisions that cause a foundation to allocate their time and resources strategically is just as important as the outcomes these decisions generate. At its best, these outcomes will directly bring about social justice; at the least, these outcomes will generate positive social change that, over time, will eventually lead to greater social justice.

The Consuelo Foundation[4]

Introduction

The "State of the Filipino Children 2002" reports that of the almost 4 million Filipino children aged six years and younger, only 56 percent have access to early childhood education. On an average day in the country, about 44,000 children between the ages of 5 and 17 make the streets their home. Approximately 10,000 children are victims of the commercial sex trade, mostly girls between the ages of 10 and 18. What's more, four million Filipino children are engaged in child labor, more than half of whom are exposed to hazardous conditions regularly.

A history of such sobering statistics is what led to the formation of the Children and Youth Foundation of the Philippines in November 1993. While the foundation was founded and financially supported through an affiliation agreement between two US-based organizations – the Consuelo Zobel Alger Foundation in Hawaii and the International Youth Foundation in Maryland – the latter withdrew as a charter organization in 1995 and the young foundation became a subsidiary of Consuelo Foundation alone, assigned to oversee support for children and youth programs in the Philippines. Ms. Consuelo Zobel Alger, who was born into a leading business family in the Philippines named Zobel de Ayala, created and endowed the Consuelo Foundation before she passed away in 1990 in Hawaii, where she and her husband had retired in 1986.

In 2000, the Children and Youth Foundation of the Philippines assumed a wider mandate and in July 2002 became the Consuelo Foundation, Inc., the operating arm in the Philippines of the Consuelo Foundation in Hawaii. Today, the Consuelo Foundation seeks to ensure that the desire of its founder to "renew hope for those who have lost it or to give hope to those who never had it" is realized under the mission of supporting programs in the Philippines which improve the quality of life of disadvantaged children, women, and families.

At present, Consuelo pursues two priority programs for this target population: first, prevention of abuse and exploitation and amelioration of conditions of survivors of abuse and second, enhancement of social and economic potential. Within these two programs, the foundation applies the following strategies: (1) contracting partner organizations (what other foundations might call "grantees") to undertake projects in alignment with Consuelo's mandate; (2) developing the programmatic and organizational capacity of both partners and other promising youth serving programs, primarily through networking; (3) making a compelling case to the public, policy makers, and funders that the needs of women, children, and youth require more support; (4) mobilizing funds from domestic and international sources to support youth development; and (5) supporting the development and testing of innovative interventions to improve service delivery.

Overall, Consuelo has 107 program partners. Sixty percent (or 64 partners) are non-governmental organizations (NGOs); 25 percent are church-based, operating as foundations or institutions run by religious orders; 5 percent are corporate foundations; and 10 percent are government organizations. A board of 9 trustees governs Consuelo.

Consuelo's Path to Strategic Philanthropy

Of the various ways in which foundations can exemplify strategic philanthropy, Consuelo asserts it most strongly in its ethos of partnership. To Consuelo, partnership serves as the context for its service delivery, which it views as an instrument that can generate a wider impact with its available resources. Partnership is reflected in two key ways: (1) building partners' financial and organizational sustainability over the long term; and (2) acting as a catalyst in order to effect change on multiple levels.

Building the Capacity of Partners

Building partner capacity is achieved by jointly agreeing on a set of organizational and service delivery standards to which each partner aspires and by targeted technical and financial assistance supplied by Consuelo. In supporting capacity building, Consuelo hopes that partners will experience enhanced capacity to conduct strategic planning; implement outcomes-focused projects; organize and advocate; practice entrepreneurial management; and lead in effective human resource management. And this, Consuelo hopes, will mean that more benefits will accrue to targeted communities. Moreover, if a strong organizational foundation is built within each partner, Consuelo has some assurances that the end of its financial support will not result in the demise of the organization.[5]

To help build organizational sustainability, Consuelo has created an organizational assessment approach that sets standards for five key organizational elements: (1) organizational purpose and commitments; (2) governance and administration; (3) human resource development and management; (4) health and environmental safety; and (5) financial management. Training and technical assistance in each of these areas is provided by Consuelo staff and external resource persons along with financial support as necessary.

In 1999, Consuelo created a Resource Development Department to systematize its efforts to help partners become more financially sustainable by diversifying their relationships and strategies for mobilizing resources. Since then, forms of assistance have focused on working with partners to:

- Develop social enterprises, which includes mission-related ventures, stand-alone businesses, and strategic partnerships with businesses and micro-enterprises.
- Implement effective fundraising activities or advocacy campaigns.
- Create fee-based services for clients and marketing of high-performance programs to donor communities for the continuation, expansion, or replication of projects.
- Promote tri-sectoral partnerships in local communities to complement partners' resources with those of business and local government units.

Some partners have started enterprises selling such items as bottled water, juice, and iodized salt. Others rent commercial stalls and post-harvest facilities, while others manage microfinance and cooperative credit programs. Two have started multi-year fund raising campaigns; others have proactively searched for new donors and have increased their base of individual supporters.

Another unique role that Consuelo plays to build partners' capacity is in creating peer networks. Clusters of partners sharing programmatic foci, such as prevention of child abuse or indigenous youth, are organized and joint learning sessions set up. Most often, a cluster meets annually to share learning and think about ways to improve service delivery.

Catalyzing Change on Multiple Levels

Consuelo's experience in working with various kinds of organizations has taught the foundation that in order to address complicated and deep-seated societal problems such as child abuse and out-of-school youth, there must be a concerted effort by a range of professions, disciplines, organizations, and service providers. The foundation accepts that most problems are bigger than what it alone can afford to provide and that it needs to involve other players to create meaningful social change. Consuelo has responded to this in a purposefully strategic manner: it initiates and participates in projects that give rise to collaboration among government, civil society, and business. In so doing, it effects change on multiple levels and often on a large scale.

Engaging with other actors also provides Consuelo with the opportunity to leverage its resources to channel additional but complementary resources to an important initiative. It realizes that the foundation's resources alone are insufficient to make the difference that's needed. In some cases, this involves identifying other donors who can fund the replication or scaling up process of a project with a proven track record. Consuelo oversees the replication process and also funds an evaluation process that leads to a decision on whether or not to replicate a program and on how to enhance project design and implementation.

Consuelo's role in adopting a multi-disciplinary approach can be illustrated in more specific terms in two examples, the first of which will be discussed in detail. The Psychosocial Legal Assistance for Sexually Abused Children (PLASAC) is a program initiated by Consuelo. Today, PLASAC has 25 core members and seven affiliate groups that make available a comprehensive, coordinated, and holistic range of services required to handle abused children cases. The project's objectives are to: equip all stakeholders with interdisciplinary psycho-social and legal skills; form and support a pool of case management teams to handle child abuse cases; provide shelters and institutions for free and/or provide subsidized access to volunteer lawyers, psychiatrists, psychologists, and medical doctors with expertise in case management; and make available the integrated service delivery to individual child abuse victims.

PLASAC came about following a conversation between Consuelo's Executive Director and the representative for the French foundation, ASMAE (*Aide Socio-Médicale à L'Enfance*), in the Philippines, which had been supporting some of Consuelo's partners. The representative expressed concern that a gap existed in the services being provided to sexually abused children. Specifically at issue was a perceived lack of coordination among service providers and the need for greater integration across services. Immediately, Consuelo and ASMAE agreed to collaborate on an assessment of the situation. While ASMAE did a survey to validate their impressions, Consuelo sponsored workshops with key stakeholders to discuss the root cause of the problem and therefore the appropriate strategies to adopt. A training needs assessment of all stakeholders ensued to prepare them for a more integrated approach.

The multi-disciplinary and multi-agency nature of PLASAC is manifested in the process by which services are provided to sexually abused children. Lawyers, social workers, and mental health professionals are assigned to each case and concentrate on delivering the services necessary for ensuring the speedy recovery of and justice for the sexually abused child in a coordinated and efficient manner. Having a network of members offering different types of services but in a collective fashion has facilitated the exchange of knowledge, resources, strategies, and technologies across disciplines and agencies and led to a more efficient service delivery approach.

A second multi-sectoral project initiated by Consuelo is the Philippine Out of School Children and Youth Development (POSCYD) Project. While Consuelo initiated the project, it worked in consultation with multiple stakeholders, including NGOs, government agencies, corporate foundations, and individual experts, to prepare its funding proposal which it presented to the World Bank's Global Partnership for Youth Development initiative. Once funding was received, the multi-sectoral angle remained. Now, the project aims to bring back out of school children and youth aged 6 to 24 to school; offer alternative learning systems and develop productive skills; and provide employment to older youth, aged 15 to 24. A complementary objective is to challenge government, NGOs, the business sector, and international donors to make a concerted effort to assist out of school children and youth, a reality far too prevalent in the Philippines.

What these and other Consuelo-initiated multi-sectoral and disciplinary projects share is a desire to address the lack of an efficient system capable of dealing with disadvantaged groups as well as the recognition that the sum of individual initiatives could be multiplied by careful collective organization and planning across groups and sectors. It is not always easy to obtain the active participation of staff from multiple sectors and agencies in these projects. In most cases in fact, Consuelo has learned that it takes a good amount of networking, advocacy, and legwork to just catch the interest of an agency. When partners truly feel commitment to the objectives of the project, however, the project becomes a self-sustaining coalition working symbiotically.

Behind Consuelo's Strategic Philanthropy

How has Consuelo been able to attain strategic philanthropy, as practiced in this regard?

First, Consuelo staff and Board have always recognized that despite its assured funding from its mother foundations, averaging US $1 million annually, its **resources are finite**. Having a very practical perspective on the amount of resources available, financially and otherwise, prompted Consuelo to see its partners and other agencies and sectors as potential contributors. To Consuelo staff and Board, having "partners" equates with having complementary resources to contribute to the issues at hand. Consuelo realizes this thinking by leveraging its own funds as a means to engage other donors, requesting its project implementers to provide counterpart funds in projects, and really committing to building their partners' organizational and financial capacity so they can be sustainable in the long term. In other words, rather than choose to only tell grantees that Consuelo's funds are limited, they engage with them as partners to collectively determine the right strategy for the organization to attain its goals.

Second, Consuelo undertakes intensive and highly pragmatic **strategic planning processes**. From 1995 on when the foundation became a subsidiary of the Consuelo Zobel Alger Foundation, staff learned that to have the desired impact it had to sharpen the definition of its programmatic concerns and strategies. In that year, Fely Rixhon assumed the position of Executive Director and Consuelo set in place a three to five year strategic planning and annual operational planning process that involves all staff members. The strategic planning activity includes inputs from prominent resource persons and partners involved in cutting-edge technologies related to the foundation's programs. The strategic plan itself defines program priorities as an outcome of understanding what is the:

- mission of the foundation;
- analysis of the external environment in which the foundation operates, especially in relation to children, youth, and women issues (including threats and opportunities);
- program imperatives for the foundation;
- analysis of the internal environment of the foundation including its history, programs, and staff (including strengths and weaknesses); and
- organizational imperatives for the foundation.

An important input into every strategic plan that Consuelo creates are regular impact evaluation results collected from programs and foundation partners via third party evaluators. These results are particularly important when considering project replication.

Driving the strategic planning are also strong commitments to personal visions. While Consuelo's Executive Director, Fely Rixhon, and President, Patti J. Lyons, have both had a considerable impact on moving the foundation to incorporate a strategic outlook, they both believe ardently and passionately in fulfilling the original vision of Ms. Consuelo Zobel Alger.[6] As Rixhon contends, "All our efforts to strengthen organizations and their programs and to improve their prospects for sustainability ensure that her wishes are carried out and that the target sectors continue to receive required services. We have been given a legacy to preserve. As a consequence, we should stay the course and not be diverted from discharging the responsibilities associated with it."

Third, Consuelo staff and board conduct **regular landscape scanning** in order to identify the specific needs, opportunities, and challenges that it wants to address in its work and also to understand the root causes behind the problems it seeks to ameliorate. In the process, it works at multiple levels of society. Information is culled from partners, experts in the field, peer institutions, and government agencies. Primary to these is its continuous dialogue with partners culminating in an annual partners meeting where issues, needs, opportunities, and challenges are tackled jointly. Consuelo staff and board are always listening.

In addition, Consuelo commissions research on key topics (e.g. a situational analysis on child abuse or juvenile justice) and conducts regular monitoring and evaluation of its programs. Staff and board also keep informed through active membership and leadership in organizations and networks that are on the forefront of analyzing and confronting development issues specific to Consuelo's target beneficiaries. To keep its board members regularly informed, newspaper clippings and interesting articles related to the foundation's interests and direction are shared with them.

Consuelo staff also invites government officials to participate in training and workshops that the foundation sponsors and staff also makes presentations to government officials to brief them on innovative projects that they think should be replicated or expanded. This stems from Consuelo's institutional belief that mainstreaming of projects can only happen with government's support.

Innovations and Opportunities for Replication

An increasing demand for accountability and transparency by international donors makes Consuelo's focus on organizational sustainability and standards highly relevant. Nevertheless, there remain challenges in a number of areas for the foundation.

The programmatic aim to achieve sustainable partners is not always simple, despite successes already enjoyed. The biggest challenge is in increasing the number of partners who are willing to change their organizational culture, from behaving like charities to thinking and acting like enterprising non-profits and engaging other stakeholders in their causes. And for those who have started the transformation, there is a question of how to stabilize and sustain them in their newfound path to self-reliance. The ability to secure funds from several sources is anchored primarily on the partner's acceptance of the paradigm that responding to the organization's financial concerns does not equate with turning one's back on the organization's mission. Some partners believe that in the development milieu, a division of labor should exist: donors concentrating on providing funds and development education, and NGOs concentrating on program development and service delivery. In this equation, raising funds, especially generating profits, outside of raising grants from foundations is not perceived as the work of an NGO by all organizations.

Moreover, some partners that would like to go into social enterprises and which have received assistance for feasibility studies and market research do not have the needed capital or equity to start the desired business. Unused to competing in the market, some are risk and loan averse and are turned off by the high loan interest rates of formal lending institutions. Moreover, they are discouraged by the state of the Philippine economy, where even businesses run by full-time and dyed-in-the-wool businessmen are suffering from losses. To compound matters, Consuelo's loan facility has been significantly decreased due to the decline in income from its own investments.

In the area of tri-sectoral partnerships, several partners still deal with local businesses or government agencies on a one-on-one basis rather than collectively. In large part, this is because it is hard to break out of the mold of seeing these sectors as more than just contributors of financial resources. In addition, some partners find that getting business or government agencies involved in their projects with the desired intensity is too difficult and time-consuming.

In response, the Consuelo Foundation is seeking to: enlist more players in funding partners' programs; build the existing network of implementing organizations so it can constitute a critical mass of organizations that can advocate effectively for the causes of children and youth and scale up effective programs nationwide; and ensure sustainability of partners and keep them focused on children and youth issues. With perseverance and a strong basis from which to work, the foundation will undoubtedly meet these challenges with success.

In considering opportunities for replicating the strategic efforts of the Consuelo Foundations, the following pointers should be considered:

- (i) Nurture a partnership that aims for a high level of organizational and programmatic effectiveness.
- (ii) Develop leadership and technical competencies at appropriate levels.
- (iii) Allocate or seek resources to develop partners' capacities for strategic thinking, entrepreneurship, and social marketing.
- (iv) Provide opportunities for local partnerships, alliances, and networks to develop and flourish.
- (v) Monitor progress, evaluate impact, and reward outstanding outcomes.

The case of the Consuelo Foundation demonstrates two innovations in strategic philanthropy, one focused on enhancing grantee sustainability and the other on bringing groups together to address critical problems. Neither building sustainability nor trying to effect change that cuts across multiple sectors and agencies is always easy, as the challenges noted above indicate. The rewards are potentially great, however, and may prove to be the most critical intervention to improve the lives of disadvantaged children, women, and youth in the Philippines.

CODE-NGO and the Peace and Equity Foundation[7]

Introduction

This next case on the Peace and Equity Foundation (PEF) is decidedly different from the previous one. This case tells the story of a very young foundation, only 2 years old at the time of writing. While the short history of the foundation means that its impacts are not fully understood yet, it has developed particular strategies that demonstrate significant innovation in resource mobilization and resource use. These strategies offer tremendous potential for other foundations seeking to become more strategic in their philanthropy.

The Work of PEF

By late 2000, the Philippine economy was in a fragile state. Aid from foreign governments, traditionally a major source of funds for development activities across the country, was declining and Filipino business profits were declining, sparking concern about how critical development activities would be funded. Against this backdrop, a few key civil society actors began a dialogue on what else could be done to eradicate poverty and the marginalization of poor communities.

One key result of these dialogues was the formation of the Peace Equity Access for Community Empowerment Foundation (more commonly known as the Peace and Equity Foundation or PEF) in October 2001, endowed with a fund of PHP 1.3 billion (US $26 million).[8] The founders of PEF were largely from the Caucus of Development NGOs (CODE-NGO), the Philippine's largest association for networks of nonprofits. After beginning operations on January 1st, 2002, PEF's fund at the end of 2003 was worth approximately PHP 1.41 billion (over US $25 million).[9]

Using the interest earned off its endowment (at least PHP 100 million, or US $1.8 million annually), PEF now helps support the development of empowered communities by ensuring that communities are able to: meet their basic needs; engage in socio-cultural and economic activities; and participate meaningfully in local governance in an atmosphere of social harmony, cooperation, and sharing.

In order to try and meet this mission successfully, one of PEF's first steps was to create a "poverty map" of the Philippines in which sectoral and geographic concentrations of poverty are identified by using indicators of education, health, income, and employment. This allowed PEF to prioritize the most poorly-ranked 28 provinces so that an appropriate program of support to these areas could be developed. Step two is still in development but involves devolving funding to "partnership and access centers," or PACs at provincial levels. In this model, each PAC is either an existing or new network that will support local NGOs and people's organizations (POs) within that province or region using PEF and other funds. This model is based on the assumption that a PAC is more likely to be in touch with local development activities in need of funding because they are based on the ground compared to PEF which covers a wider area. Moreover, it is hoped that these responsibilities will result in improved institutional capacity within each PAC to manage community development programs and contribute to the sustainability of local organizations. PEF provides each PAC with assistance under the following four fund types:

- revolving loans to support economic and income generating activities of PAC partners and beneficiaries;
- grants for basic social services and other non-income generating activities of PAC partners and beneficiaries;
- capacity building to build the managerial and organizational capacity of the beneficiaries of each PAC; and
- management and administrative support to help defray the costs for the PAC to implement the partnership program with PEF.

PEF is governed by a nine-person board, three of whom are from regional NGO networks with operations outside of Metro Manila.

CODE-NGO & The Peace and Equity Foundation's Path to Strategic Philanthropy

In its short existence, how have CODE-NGO and PEF exemplified strategic philanthropy? I would argue that the association and foundation championed strategic mechanisms for mobilizing and using financial resources, as exemplified in the following two examples: (1) the creation of an endowment fund through capital market transactions, as led by CODE-NGO; and (2) effective leveraging of the foundation's assets to leverage other funds, recover funds, and complement existing funds.

Establishing an Endowment Fund via the Capital Market

Behind the creation of PEF is the story of the "PEACe Bonds" and a goal to raise PHP1 billion (approximately US $20 million) in the capital market. PEACe Bonds is the acronym for Poverty Eradication and Alleviation Certificates, a term devised by CODE-NGO leaders when they first hit upon the idea of engaging the capital market as an effective means for generating income for poverty alleviation endeavors in the Philippines. Between February and October 2001, this idea was nurtured, implemented, and the result was that civil society leaders successfully and legitimately raised approximately US $27 million.

How these funds were raised in such a short time is fascinating and is best told from the perspective of the woman who led this pioneering process. Marissa Camacho-Reyes is a long-time civil society leader in the Philippines and in late 2000 was President of the Association of Foundations, a network of nonprofits and foundations. At that time, the Philippine economy was still trying to bounce back from the slump caused by the Asian financial crisis; ODA agencies, long a major source of funding for development activity, were cutting back their funds to the country. The need to raise funds to put into development was increasingly a preoccupation of Camacho-Reyes as the prospects of raising monies from the usual sources, including even corporate foundations, were bleak. She began asking: "When a business wants to expand its operations and does not want to borrow money from a bank, what does it do?" She was told that it issues bonds and that is where the first kernel for what became known as the PEACe Bonds was formed.

Between November 2000 and February 2001, Camacho-Reyes studied the mechanics of bonds and when she thought she understood enough, she prepared a 2-page concept paper outlining an idea for raising money by retailing development bonds. She convened a group composed of civil society colleagues and investment bankers who might be open to working with civil society. When she presented her concept paper, the bankers responded that it would not fly as she had designed it. But she pushed on and asked the bankers if it would be possible to raise money through bonds if the design was different. They said it was but that they had never done it before. Camacho-Reyes asked them to design a package for CODE-NGO based on bonds and one of the bankers was tasked to do the research and prepare the financial design, or "term sheet." In the next meeting, that investment banker presented his proposed financial structure or design. All the other bankers agreed that his design was not only simple but also very doable.

Meanwhile, Camacho-Reyes was elected as Chairperson of CODE-NGO in March 2001. As CODE-NGOs' national coordinator, Danilo Songco joined Camacho-Reyes on the bonds initiative, as did Marcia Miranda, the Vice President of the Association of Foundations. CODE-NGO members supported this initiative as they recognized that organizations often have great projects but lack adequate funds to implement them.

A critical element in the banker's plan was the purchase of government bonds in the primary market to be resold later in the secondary capital market. The spread between the two would be used to fund an endowment controlled by a new foundation. But CODE-NGO did not have the money to make such a buy. It was at that point that the bankers led CODE-NGO to Rizal Commercial Banking Corporation (RCBC). RCBC was contracted to bid on behalf of CODE-NGO for the bonds and RCBC Capital was contracted by CODE-NGO to fully underwrite the transaction, which would then mean that CODE-NGO would not need to put up the cash to purchase the bonds. Once this project was approved by RCBC Capital's board, CODE-NGO and RCBC entered into an underwriting agreement in March 2001.

On October 16, 2001, the Philippine Bureau of Treasury held an auction of 10-year zero-coupon Treasury Notes, or bonds. This was part of the government's ongoing borrowing program to cover its operating expenses and debt servicing. Unlike other Treasury Notes that pay interest on a semi-annual basis, payment on a zero-coupon bond is only due at the time of maturity. Owing to this, the governments are willing to sell such bonds at a deep discount relative to its face amount. For governments, zero-coupon bonds offer the advantage of money upfront to spend on capital or other projects as well as better cash flow management during the term of the bonds.

While the idea of using "zeroes" as practiced in developed capital markets was thought of by CODE-NGO and its contracted financial advisers, RCBC was not assured of winning the competitive auction against the bids of other sophisticated players. On October 16, 2001 its bid of 12.75 percent was successful, however. Prior to the auction, RCBC Capital had committed to underwrite the transaction at 11 percent, meaning that the parties agreed that should CODE-NGO be awarded the zeroes at the auction, RCBC Capital would buy them from CODE-NGO at 11 percent.

The government sold the PEACe Bonds at about PHP20 for every PHP100 of their face amount, which was actually a very competitive rate at the time of the auction relative to the prevailing market rates of 10-year fixed-rate Treasury Notes. RCBC paid PHP10.168 billion (approximately US $185 million). After 10 years, it will have the face value of PHP35 billion (US $700 million). The difference represents the principal plus the compounded interest that the loan will earn in 10 years.

Three days after winning the bid on the bonds (during which time no other bidder contested the results as is permitted by law), the deal was sealed with full payment going to the Bureau of Treasury. By October 19, 2002, just 10 months after completing the first official brainstorming between the investment bankers and NGO leaders, RCBC had sold the bonds to RCBC Capital at 11 percent per annum or PHP 11.9 billion (almost US $217 million), the bank had reimbursed itself the PHP 10.168 billion that it paid the Bureau at the auction, and had remitted the difference of approximately PHP 1.8 billion to CODE-NGO. After paying the fees owed to the bank and underwriting division as well as to the financial advisors, CODE-NGO divided its net proceeds of PHP 1.48 million (nearly US $27 million) between a trust fund for the CODE-NGO secretariat and its services to network members and the trust fund for management by the new Peace and Equity Foundation worth PHP1.3 billion (approximately US $26 million).

Leveraging the Assets of the Foundation

While the initial birth of PEF's endowment employed innovation and strategy, the ways in which it continues to leverage these assets exhibits even further strategy.

PEF invests its endowment fund through fund managers. The target return on this investment is 10 percent per annum (although the actual return on investment has been closer to 12 percent). Interest earned on these investments is used to finance development projects. Since a portion of the disbursements to development projects are in the form of 'recoverable' instruments – loans, equity, guarantee/warranty – PEF expects to recover at least 40 percent of the funds disbursed (net of write-offs from bad debts). These are then added to the funds available for development financing.

PEF attempts to leverage its assets in the following ways:

Fund Recovery

Fund recovery is grounded on a policy that grants should not be provided to projects that are expected to generate revenues (such as in micro-finance or micro-enterprise projects). In these cases, PEF utilizes several financial instruments, including loans, guarantees, and equity that will enable the foundation to recover the principal and earn income. Grants are reserved for projects that are not expected to "make money," such as training, community organizing, or research and development. PEF believes that grant-dependent enterprises tend to become uncompetitive and inefficient, and thus cannot survive in the open market.

In order to improve PEF's performance in fund recovery, complementary policies were devised, including:

a) Incentives in the form of interest rebates. For example, a microfinance project that will open a new branch in a PEF priority region may be given a loan of PHP3 million (US $54,500) for working capital payable in 3 years with one year grace period on the principal. This loan will likely carry an interest rate of 12 percent per annum, payable monthly. If all the amortizations due for the year are paid on time, PEF will provide a 3 percent rebate to the proponent at the end of each year.
b) The provision of grants for institutional support and beneficiary development. Institutional support refers to grants to an implementing organization to cover the startup costs of a new project, such as staff salaries for 6 months, staff training, computers, etc. Grants for beneficiary development are provided for skills trainings, workshops and field visits to improve the capabilities of the beneficiaries.
c) Calibration of the level of assistance provided. In addition to being very careful in thinking through the forms of support PEF can provide to the range of

organizations and initiatives it might support, staff also matches the level of assistance given with the maturity level of the proponents. PEF staff believes that mature organizations can absorb more financial resources than start up organizations can and that the latter are likely to need grants designed around improving institutional development specifically.

Requiring Counterpart Funds from Project Stakeholders

Sectors benefiting from any project that PEF is supporting are expected to put up a counterpart, which may or may not be in the form of cash. For example, in a potable water system project the local community might provide labor; the local government might provide materials and personnel (such as services of the municipal engineer); and PEF might provide monies for the purchase of materials. In a microfinance project, the partner might provide staff salaries and office equipment, while the beneficiaries' counterpart might be the savings they are expected to plough back into the enterprise. This policy improves the chances of success of the project and extends the outreach of the foundation.

Donors' Forum

PEF has helped initiate a forum among other foundation donors in the Philippines to ensure complementarity in resource allocation as well as increased leveraging of financial and other resources. What brings these funders together is a shared sense that: (i) no funder should reinvent the wheel; (ii) each organization has developed a field of expertise that can be tapped; (iii) rather than "do it alone" or "do it all," it is better to apply an organization's resources to where it has the potential to have the greatest impact (i.e. where it has a niche); and (iv) where donors find themselves operating in the same geographical areas they can accomplish more by working together.

For now, modest targets have been set. The forum has identified four provinces where there is a high degree of overlap among the donors and they have divided into provincial clusters to develop common activities and projects for each province.

A Warranty Facility

Another form of fund leveraging developed by PEF is the setting up of a "10 million peso performance warranty facility" to help poor families acquire housing in urban areas. The Philippines has a Community Mortgage Program wherein urban poor communities can avail of a loan from the National Home Mortgage Finance Corporation (NHMFC) to purchase the land where they are residing. Due to the complex and bureaucratic nature of processing such requests, however, it can take a very long time for such funds to be released. There are, however, certain requirements that tend to delay the release of the funds for land acquisition.

PEF has responded to this problem by working with NHMFC to make the process easier. NHMFC has agreed to defer the dates by which four required documents need to be submitted in order to release funds for land acquisition within a much shorter time frame. In fact, the time between application and release of funds is being cut from 2-3 years to less than a year. In exchange, PEF provides a warranty that the four documents can be delivered by a Community Association (CA) within 18 months. PEF also warrants that the CA attains at least 90 percent collection efficiency rate on its amortizations to NHMFC (the CA collects monthly loan amortizations from members and pays that amount to NHMFC). The foundation pays penalties on behalf of the CA if any of these conditions are not met. An additional important element in the arrangement is that it is the landowner (who benefits from the early payment) that pays the 3 percent 'warranty fee' to PEF, not the community association. The warranty is valid only for an 18-month period for each housing project.

The value of the warranty is equivalent to 10 percent of the loan of the community association. Thus, the PHP10 million warranty fund of PEF effectively covers loans at least 10 times its value or at least PHP100 million (approximately US $1.8 million) worth of loans to urban poor communities.

Behind CODE-NGO & PEF's Strategic Philanthropy

What triggered this strategic approach to resource mobilization and resource use?

While ODA agencies had been pouring more money into development in the Philippines after President Corazon Aquino came into power in 1986 in order to strengthen the new democracy that her administration was forging, these funds began to decline considerably in the mid-1990s as the economy appeared to strengthen relative to other countries. In 1995, USAID and CIDA cut their NGO programs by 50 percent; they have continued to reduce their NGO funds since then. In 2001, the Ford Foundation announced that it would be closing its doors in September 2003 after more than three decades in the Philippines. At its peak, Ford granted approximately $10 million a year.

At the same time, the worsening economic conditions in late 2000 and fears about it only growing more severe, especially under the unstable political conditions then (former President Joseph Estrada was undergoing his impeachment trial) prompted Marissa Camacho-Reyes, President of the Association of Foundations, the Philippines largest and oldest membership network of foundations and NGOs, to begin a dialogue on what foundations could do together over and above what they were already doing to raise urgently needed development funds. It was during this dialogue that Camacho-Reyes finally said to her colleagues: "I think we should look outside the NGO sector" (Mayuga, 2002). Some interesting concepts for project development were discussed but the real issue was where to get the funds for the projects. And it was this that led to the realization of the PEACe Bonds one year later.

In short, Camacho-Reyes had an idea – to raise money from the capital market – and the experts – mainstream investment bankers – developed and designed the financial structure to make that happen. CODE-NGO provided the track record and associated social capital needed to negotiate with RCBC and government agencies concerned.

Concerning strategic resource use, PEF staff and board are very driven to demonstrate results. In fact, when PEF first started operations in November 2001, the Board solicited proposals for projects that would demonstrate results at the community level in 3 to 6 months. The sense of urgency was partly to stem off the then growing feeling of disenchantment among poor communities that was manifested in the May 1st 2001 incident when the residence of President Gloria Macapagal-Arroyo, Malacanang, was stormed by hundreds of urban poor residents who were supporters of deposed President Estrada. The Arroyo administration took this as a wake-up call to examine its poverty alleviation programs and attempt to channel more benefits directly to poor communities. The trustees of PEF decided to support these efforts and set out to actively solicit and support basic service projects like setting up potable water facilities and livelihood support.

This quest for ensuring results is also manifested in the internal processes for planning. In September 2002, after three new members were elected to the PEF board and a new

Executive Director hired, senior staff and board members conducted a major strategic planning process. The two-day workshop resulted in the honing of PEF's unique niche in the country as well as the set of strategies for accomplishing this niche, which included the PAC strategy to devolve funding to communities, the application of the poverty map, and the definition of "key result areas" that sets out specific forecasted accomplishments for PEF's performance using quantitative and qualitative measures over the next three years, such as how it will reduce lag time between the receipt of project applications and fund disbursements.

This drive to demonstrate results fast may in part be attributable to a felt need to assuage any lingering doubts amongst the public about the intended purposes of working with capital markets to raise funds.

Innovations and Opportunities for Replication

When asked what he might recommend to other foundation staff seeking to leverage foundation assets, PEF executive director, Enrico Garde, recommended:

(i) Ensure that the community involved feels ownership over the project. To facilitate this, make sure residents have a stake in the project. The willingness of communities to provide cash and/or non-cash counterpart is an indicator of the relevance of the project to their needs.
(ii) Sell the idea to donors to fund along with you. Donors can be more open to complement rather than compete with one another.
(iii) Bring in representatives of civil society, the private sector, and government. Such joint action can lead to a combination or blending of expertise and best practices so that new ideas or innovations are created.

In countries without a precedent of NGOs or foundations having engaged the capital markets in order to earn funds, the experience of the individuals who made this happen are also worth noting. They tell a story fraught with complexity and often misplaced accusations but ultimately success. At the time that Marissa Camacho-Reyes, Dan Songco, and Marcia Miranda were leading the discussions with financial advisers and RCBC, Camacho-Reyes' brother, Finance Secretary Jose Isidro Camacho, was undergoing his Senate confirmation. He already supervised government agencies through which this project had to pass at various stages. While all necessary requirements to implement this fundraising activity were in place before Mr. Camacho was appointed Finance Secretary and although he appropriately stayed out of all the CODE-NGO discussions around the zero-coupon bonds, some of his political opponents still tried to argue that he was in some way maneuvering this deal in the interests of his sister. This happened despite the fact that the transactions were completely transparent and legal.

At the same time, CODE-NGO leaders had to face the antagonism and shock that their peers – other civil society leaders expressed towards them when their actions to engage the capital markets became publicized. For some, the assumption was that any deals with the capital markets must be inherently unjust. This is illustrative of how the non-profit sector has perhaps steered too far from the for-profit sector in its course of development.

For foundations interested in replication of this strategy, CODE-NGO leaders have pointed to the realities that made their foray into the capital markets a successful one:

(i) The idea was simple. It was based on the usual trading of financial instruments that created incentives for buyers and sellers. While it required financial creativity to come up with the idea and design, it was easy to do once a competent team of financial advisors and experts in legal finance, taxation, and accounting were concerned. Camacho-Reyes argues that trading zero-coupon bonds may not be the only way to tap the capital markets.

(ii) As perhaps the largest civil society network in the Philippines, CODE-NGO had a sufficiently strong track record and credibility to ensure it had sufficient social capital in the country to put the idea together and see it through.

(iii) It was a win-win situation for the Philippine government, private sector, and poor communities. The government obtained funds at a lower effective rate than the prevailing rate for equivalent securities. The private sector collected standard fees and commissions for providing their professional services in these financial transactions. And poor communities are now benefiting from the trust fund established.

(iv) The cause prompting these efforts was one that many in the country – and from all sectors – could feel was becoming an increasingly urgent issue requiring action. In 2000, approximately 34 percent of the population, or 26.5 million people, were living below the poverty line in the Philippines.

In considering the outcry that this case sparked, I would argue that this was actually a pioneering effort. As Sylvia Mayuga wrote in 2002 in her commentary for The Philippine Inquirer (the most widely read national newspaper), in response to criticisms waged, "How NGOs began "engaging the capital market" with the same vigor that they have engaged Right, Left and Center is . . . an essential part of a story future Filipinos will surely call a milestone."

Endnotes

[1] National Statistical Coordination Board (Philippines) (2000). www.nscb.gov.ph.

[2] The Association of Foundations and The Synergos Institute (2000). Foundation Directory: The Philippines. Manila: Association of Foundations.

[3] Venture for Fund Raising (2001). Investing in Ourselves: Giving and Fund Raising in the Philippines. Manila: Venture for Fund Raising.

[4] With contributions from Fely Rixhon, Executive Director, Consuelo Foundation, Philippines.

[5] Consuelo staff applies a set of criteria to potential partners to evaluate whether or not a partnership with the foundation will be an appropriate input to address the issue at stake.

[6] Alger asked the foundation "to prevent and ameliorate abuse and exploitation of children and woman, to treat the problems arising from or connected with homelessness, to develop income-generating skills in people so that they become self-sufficient, to assist the poor in learning to help themselves, and to relieve the suffering of those who are physically or emotionally sick."

[7] With contributions from Enrico Garde, former Executive Director of the Peace and Equity Foundation, and Marissa Camacho-Reyes, Chairperson of CODE-NGO

[8] At that time in 2001 the exchange rate was US $1 = PHP 50.

[9] At that time in 2003 the exchange rate was US $1 = PHP 55.