Building Endowments

From **Mobilizing Resources and Support** in **Foundation Building Sourcebook: A practitioners guide based upon experience from Africa, Asia, and Latin America**
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Section 2 Building Endowments

This section looks at the cases of several foundations that have built endowments by taking advantages of opportunities within their national contexts.

Example 1 Local Philanthropy and Debt-for-Development
Foundation For Community Development (Mozambique)

Example 2 The Capital Campaign
Puerto Rico Community Foundation

Example 3 Debt-for-Nature
Foundation For The Philippine Environment

What is an Endowment?

Endowments are permanent assets (money, securities, property) that are invested to earn income. Trust funds, memorial trusts, patrimony and capital or asset base are other terms used to refer to endowment funds. Depending on the cultural and legal context, one or more of these terms may be in common use.

An endowment may be created by the contribution of a single donor or the collective contributions of any number of donors.

Some common types of funds that may describe all or part of an endowment are:

- **Unrestricted funds** — Interest earned or capital from these funds may be used at the discretion of the board of the foundation towards its charitable mission.
- **Restricted funds** — These funds must be used for a particular purpose or beneficiary at the discretion of the foundation; examples include the "family funds" of the Puerto Rico Community Foundation (PRCF). Some of the various terms used for restricted funds are:
  1. Donor advised or designated - The original contributor to the restricted fund has given some degree of guidance as to how the proceeds of the fund are to be spent.
  2. Field of interest - The fund focuses on some aspect of the foundation's mission.

Occasionally, a donor will create a fund that is designed not to be permanent or an organization will decide that it will spend out its endowment over a specified amount of time. As endowments are very difficult to raise and the funds are difficult to replace, this practice is rare.

How Are Endowments Raised?

Some grantmaking foundations have been established by endowment contributions from a single corporation, government agency, official development assistance agency, individual, family or other foundation. The objective of this contribution is often to establish a sustainable source of funding for a particular cause or community. The foundation, because it does not come into existence until later, plays no role in raising these initial endowment funds. Its role is to invest the funds wisely and, in some cases, to raise additional funding.

The endowment of the Foundation for the Philippine Environment (FPE) rose from a contribution and debt-for-environment swap agreement with the US Agency for International Development (USAID).

Foundations may be created by individuals or organizations with the mission of building an endowment by fundraising from multiple sources. The mission of building an endowment goes side-by-side with the foundation's efforts to mobilize resources for the work of other organizations.

The Foundation for Community Development (FDC) of Mozambique raised an endowment from local business and individual contributions that partly enabled it to receive funding from a debt-for development swap.

A common way to raise an endowment is to solicit contributions from members of the community that the foundation intends to serve. The Foundation can be a vehicle for social change over the long term and a mechanism for disbursing, monitoring and evaluating contributions. Community foundations, like the PRCF discussed in this chapter, (a type of foundation that serves the interests of a defined community and manages donor designated funds) take this approach and have had considerable success in the United States and Canada.

The PRCF endowment began with a challenge grant from a group of American foundations (led to a large extent by the Ford Foundation) and the contributions of several corporations.

How is the Case for an Endowment Made?

Many nonprofit organizations are attracted to the idea of endowments because they offer financial sustainability and increased autonomy. Endowment contributions, however, must compete with other immediate needs. In raising contributions, the foundation must make the case for why a permanent source of income is necessary for it to have an impact against the issues it seeks to address. The ownership of an endowment gives an organization a degree of independence from funding trends that are outside of its control and increases its capacity to plan over a longer term because it can be assured of being able to fund its initiatives.

Critics of endowments point to two significant issues in endowing organizations. First, an endowment can shield an organization from competitive forces and reduce the pressure on it to be responsive to its constituents. Second, insofar as a foundation exists to eliminate a particular problem, why should resources be set aside indefinitely?

Foundations, by their nature, are usually created precisely to mobilize resources on behalf of the larger community they serve. Their stewardship over endowment funds is much more than a funding strategy; it is the creation of this resource that makes them an effective leverage to develop new sources of funding and work with a variety of types of organizations within their constituency to address financing issues for a whole sector. In this way, neither of the two major criticisms of endowment funds apply to foundations. The endowment becomes an effective financial asset base that can invest in increasing the fundraising and financial management capacities of organizations within civil society. The foundation serves to promote innovation, pride, healthy competition and collaboration within the community it serves. Even as this community becomes stronger it will continue to benefit from having an institution that plays this role.

Some common arguments for endowments are:

- **Sustainability** - Foundations seek to effect fundamental positive change in their communities and to serve the changing needs as their communities grow. Both of these objectives require the foundation to plan and act over the long term.
- **Local ownership of resources** - An endowment can be a means of holding and stewarding a collective resource for a group or community. Having ownership over this resource can enable the group or community to set its own priorities.
- **Leveraging** - Acting as an investor in social, economic or environmental solutions, the foundation is well-positioned to attract additional funds and have a greater impact.

The case for the endowment is often written as part of an effort to raise contributions as a case statement, which can then be adapted and used in marketing materials, letters, meetings and presentations.

Summary Points

Investing time and energy in consultation can build support for an endowment fundraising effort. People are more likely to give to something in which they have a vested interest. The FDC and the PRCF both planned to create local philanthropy over the long term and viewed consultation as a crucial element in launching their efforts. Consultation also may require significant compromise. In the case of the FPE, Philippine nonprofit leaders pressed for greater ownership and representation on the part of local civil society.

Raising financial support for the fundraising effort itself can be a crucial element of its eventual success. In all three cases, financial support enabled founders to pursue a strategic effort to raise an endowment. It was also an important leverage for additional funding. The PRCF and the FDC received this support from other foundations. The FPE effort was funded as part of a government assistance program.

Building a track record as a grantmaker will raise understanding and credibility for the effort. In Mozambique and Puerto Rico, where there were no other grantmaking foundations or very few, the FDC and the PRCF are pioneers in the field. They have succeeded in raising endowment contributions but believe that they must show what they can do and that they can be successful in order to convince many new donors to contribute. Both foundations have focused on raising program funding that will help them to make this impact.

A good plan and strategy on how the endowment will be invested can convince potential donors to contribute. Investment advice and expertise can be very expensive. All three foundations have sought out board members who bring this expertise to the foundation. These board members have helped to craft an investment strategy. In the case of the FPE, that strategy includes having a staff investment manager in charge of investing a portion of the endowment and who must compete with external companies that invest other portions of the endowment.

Some foundations develop restricted funds as a service to donors who are concerned about a particular cause. The community foundation approach of offering services to donors by setting up restricted funds that can be employed for causes and purposes they care about is beginning to be tried in many countries. The PRCF has started to raise these restricted funds. Its Family Fund program sets up trust funds in the name of a family or individual that support particular fields of interest.

One or two significant contributions to the endowment fund demonstrate the feasibility of the effort and can leverage more funding. The commitment of resources, both contributions and the energy and time of the founders, demonstrate the likelihood of successfully establishing an endowment. In the case of PRCF, having the support of a well-known US foundation and a pharmaceutical company encouraged other foundations and companies to become a part of such a successful effort.

Example 1 Local Philanthropy and Debt-for-Development
Foundation for Community Development (Mozambique)

In 1989, a core group of concerned Mozambicans began looking for ways they could support the growth of civil society organizations in their country. After positive consultations with potential funders and beneficiaries, they started the Community Development Association in 1992 to facilitate the establishment of a foundation. The Association was charged with identifying an appropriate structure and funding. Mozambican law requires that an organization registering as a foundation possess an endowment. In order to meet this requirement, raised contributed their own money and raised additional funds from people within their network.[8]

The founders included the former first lady of Mozambique, Mrs. Graça Machel, a former Minister of Finance, and experienced leaders from the nonprofit sector, the national university and the church. They launched a fundraising campaign to seek money from individuals and corporations in Mozambique and, eventually, leveraged income from a national debt swap. Two early allies in the United States were the Synergos Institute, which gave technical assistance, and the John D. and Catherine T. MacArthur Foundation, which provided funding for institutional development. By 1994, the funding groundwork had been firmly laid and the Association officially launched the Foundation for Community Development (FDC).

Strategy

The founders of the FDC spent four years laying the groundwork and investigating strategies for raising their endowment. They approached the MacArthur Foundation in 1990 to support their efforts in creating an open process of consultation and dialogue about the need for and role of an endowed foundation in Mozambique. The MacArthur Foundation became a significant supporter of the process, providing funding for consultation activities at first and, later, core funding to the effort.

FDC believed that emergency funds (from international relief organizations and bilateral agencies), although an important source of funding in the short run, would begin to dry up as peace was consolidated in the country. The founders felt there was an urgent need to begin building a funding source that would be locally owned and could gradually replace foreign sources as they disappear. It proposed a target of US$50 million.

Their strategy pivoted on reaching out to three potential sources of funding:

- Convincing Mozambican businesses and individuals to invest in the endowment
- Participating in a debt-for-development swap
- Raising support from foreign foundations and official assistance agencies

Convincing Mozambican Businesses and Individuals to Invest in the Endowment

In 1996, Mrs. Machel, in a paper delivered at the Philanthropy and Domestic Fundraising Workshop in Zimbabwe, emphasized the key role of "dialogue and planning" in raising the endowment. Through this dialogue, the founders learned that emerging business leaders in Mozambique were interested in finding ways they could also be involved in the social and economic development of communities.

> The Community Development Association [as FDC was then known] started by enlisting members of Mozambican society to pull together independent resources and assistance from within Mozambique. We looked across sectors and asked who were the potential partners in our enterprise who could share the dream to bring about a sustainable source of support for the initiative of Mozambican communities.
>
> We found that these partners were actors in our society who could not solidify their social commitment through their regular activities. Contributing to the endowment of the foundation gave them a way to share in social development. Individuals who were looking for ways to be involved in national development were very interested in helping to build such an endowment.
>
> National businesses, especially in the banking and insurance systems, were others who could see the benefit of a sustainable national fund for community development. Because it didn't fit their bottom line–to make a profit–they needed a partner in civil society to make such a fund a reality. The connections had to be built carefully and it was crucial to clarify the involvement and participation of all potential contributors. In the end, through significant dialogue and planning, we were able to put together these partnerships and we collected the equivalent of approximately US$ 300,000 from Mozambican hands.[9]

One way in which the founders consulted on the idea of establishing a national community foundation was through a two-day seminar in 1990. They invited two representatives from each of Mozambique's ten provinces, five ambassadors from foreign donor countries, eleven representatives of bilateral and multilateral assistance agencies and thirty-five recognized leaders from the private sector, the government, churches and non-governmental organizations. Machel set the stage for the discussion:

> We have informed you of the origins of the initiative to set up the Foundation for Community Development, and we have provided some ideas to situate its position in the whole range of society's initiatives in favor of development.
>
> We are a group of individuals who feel the need to participate actively so that the ideals that many of us share may become a reality.
>
> We want to mobilize determination and resources in an effort of national solidarity which could fill a vacant space, and with results that could also be very sizable, though we want to move from small things toward larger ones in a secure manner.
>
> Therefore we ask that your participation in the discussion transforms your resolve and your experience into our common knowledge.
>
> We ask that you share your convictions and fears openly, always bearing in mind the situation in which the poorest communities live as they are in the end the reason for holding this seminar.[10]

The founders felt the meeting accomplished two major goals. It:

- Opened access to a wider pool of expertise and resources
- Personally involved and earned increased support from both potential donors and national civil society leaders

The founders felt they were increasingly able to demonstrate the local need and demand for an endowed foundation. Several of the founders set out on intensive fundraising visits to the north, center and south of the country. They asked business and social leaders they knew to make a contribution to the Foundation's endowment. They had learned that businesses were not capable or prepared to commit to on-going contributions because they were unsure of their own position within the country's rapidly changing economic environment. Antonio Carvalho Neves, a founding member who was part of this funding drive noted said "We believed that fundraising would not be a problem if we could show a coherent plan for the organization that people would see as good."[11]

Through this fundraising effort, the Foundation was able to raise the equivalent of about US$ 300,000 in less than a year-and-a-half of fundraising visits. Of the over thirty contributors, the majority were mid-size businesses, some of which predated Mozambican independence in 1980. The founders focused on making the pitch for endowment contributions through personal contact and discussion. They did not invest in the development of materials and presentations, most likely because they already had direct access to potential contributors and their decision to make a contribution at that time was most influenced by the trust built through personal contact.

Participating in a Debt-for-Development Swap

The government and a coalition of European banks had been looking for a way to reduce Mozambique's debt burden for some years. Creditors had agreed in principle to write off debt, but required the government in return to make local currency available for social and economic development. From their earliest discussions, in the late 1980s, the founders saw the possibility of raising endowment income as a recipient of income from the swap. A good opportunity finally arose when the founders had raised local funding and thus demonstrated local ownership and commitment to the idea.

The founders had access to government ministries because they included several people who had been high-level government officials. The Finance Ministry was responsible for the swap. Building on its connections, FDC founders met with the Finance Minister, who was convinced that the FDC endowment would be a good recipient of funds because it would return a clear, long-term benefit to Mozambican society. He played an integral role in advising them and supporting their participation. This support was key, since the negotiation and mechanics of the debt swap were largely out of the hands of the FDC.

One condition of being accepted as a recipient of funding was that the founders did not pressure the government nor push for a deadline of payments. Such action could have impacted on the swap itself. The Ministry also retained the right to determine how the payments would be made and had the option of paying in currency or other assets. Because the national currency was still not stable and it was at the time difficult to put a value on real estate and other non-cash assets, this meant that the final value of the swap was difficult to estimate.

The role of the founders was to demonstrate that the foundation was a credible and viable approach to social and economic development. Antonio Carvalho Neves and Graça Machel undertook visits to foreign creditor agencies in Europe and were successful in convincing them to agree to the foundation's participation in the swap. As Carvalho Neves explains, "We came in between foreign donors' allocations and the government of Mozambique and said: 'Why not give it to us?' We had the historical chance and the connections, all parts of the bridge."[12] The Foundation had to make the case for the endowment directly to the creditor countries that were involved—Norway, Sweden, Finland, Denmark and Holland — but the swap itself was handled directly by the governments involved.

Machel describes the unfolding of the negotiation and emphasizes the importance of timing:

> Despite the difficulties, we felt that we had to launch our endowment with local funds, from local citizens and to enlist the support of the Mozambican government. This alone gave us the strength and confidence to negotiate with the government about what role it could play. At the time, we discovered that Mozambique was negotiating the terms of its debt with several big banks in Europe. Because of the care we had taken in building collaboration and partnership with the government, we learned that both the government and the European bankers were looking for a social enterprise, like our own, in which Mozambique could contribute as part of a debt buy-back. Our timing was right and the fact that we had already mobilized significant local support made us an attractive recipient of these social funds. The government was able to conclude its negotiations and the endowment we were raising received a multimillion dollar contribution from public funds. Thus, through our broad partnerships in society and with the government we raised the initial endowment we needed….[13]

All disbursements to the Foundation were made between 1992 and 1996. In addition to cash, the Foundation received some of the payments as real estate, some of historical or touristic value. By 1997, The Foundation endowment from the debt buy-back was worth about US$3 million.

The founders made the case for the Foundation as a recipient of funds by:

- Ensuring the support of the Finance Ministry that would negotiate and agree to the deal
- Fostering the support and understanding of local social and economic leaders of the need for and the potential role of the foundation
- Meeting in Europe with some of the agencies involved to build their understanding of the foundation

Raising Support from Foreign Foundations and Official Development Assistance Agencies
Initially, the founders believed they could interest official development assistance (ODA) agencies in matching local resources and commitment to fund the endowment. Founders met with the foreign agencies and foundations to discuss this but discovered that the strategy was not likely to succeed. The majority of donors were willing to consider support for the Foundation's program or project proposals but few had an internal policy that would allow them to support endowments. Beyond the policy question, even those organizations that could support endowments would not consider such support for the Foundation because, as a start-up organization, it lacked a track record. A final issue was that the Foundation did not yet have the capacity to respond to the needs of these agencies, in terms of proposals, background materials and other communications or tools of accountability.

By 1992, the founders reevaluated this strategy and decided to table their endowment fundraising effort with foreign agencies until they had built an organization with a track record. Instead they approached foundations and ODA agencies for program support—to help build the track record they lacked—and institutional development assistance that would strengthen their ability to raise and manage an endowment.

For example, they asked the US Agency for International Development (USAID) to fund an assessment of the feasibility of establishing an endowment in Mozambique to provide a flow of funds for the organization's continuing operations.[14] USAID agreed and hired an American consulting firm to conduct the study. The study:

- Concluded that endowing an organization was a feasible approach in mozambique (a question that many potential funders were asking)
- Produced fourteen recommendations for FDC's structure, staffing, program, and resources development

These recommendations included the following:

> - It is feasible for [the Foundation] to establish an endowment to provide sustainable funding to meet its core operating needs. The [Government of Mozambique] has committed to provide the Foundation with some of the proceeds from the debt buyback. The Foundation has demonstrated its ability to generate contributions from the general public...
>
> - [The Foundation] should undertake a study of its staffing needs under several programming and administrative support scenarios. This should include fundraising; accounting; personnel management; funding criteria development; project analysis, design, and evaluation; communication and information; management information systems; documentation; and training for grants management.[15]

The study confirmed the belief of the founders that an endowed foundation was feasible and added credibility to their efforts. The study also helped increase the confidence of foreign funders in the initiative.

Example 2

The Capital Campaign

Puerto Rico Community Foundation

The Puerto Rico Community Foundation (PRCF) was founded through the efforts of a group of organizations and individuals who wanted to increase funding to the nonprofit sector in Puerto Rico. Founders included the National Puerto Rican Coalition (NPRC) and a group of donors led by the Ford Foundation who came together with a common interest in increasing funding for nonprofit activities on the island. The establishment of an endowment was a high priority of PRCF's founders, who saw it as essential to sustaining the financial aims of the foundation. PRCF's formation is discussed in Chapter 1.[16]

Founders chose to build an endowment following the community foundation model—to create an institution that can raise and invest funds from individual donors within the community from which interest will be used towards an objective that the donor advises. They began by seeking contributions from US foundations and US corporations based in Puerto Rico to build an initial endowment with which they could leverage local funds.

Over the last fifteen years, the PRCF has conducted two endowment campaigns as well as ongoing fundraising efforts to raise its current endowment, which stands at over US$20 million**.** As the backing from its first supporters leveled off, PRCF sought and continues to seek an increase in support from local sources in Puerto Rico. The Foundation has tried a number of strategies to do this, including the building of funds named after families and sports celebrities.

The Initial Campaign - 1983-8

Conditions for raising resources from contributions in Puerto Rico did not seem favorable in the 1980s. Philanthropy was traditionally linked in many people's minds to church-based giving programs, and the number and role of grantmaking foundations were very limited—one private foundation and less than ten other family and independent foundations, all relatively small, on the island.[17] The idea of donating to a new community foundation that would allocate money for specific community projects had not been tried.

Engaging a Constituency through a Feasibility Study

NPRC decided to conduct a feasibility study on the idea of setting up a community foundation. In 1983, with Ford Foundation funding, NPRC commissioned private consultants to carry it out. The study was an important step in building support for the idea and raising endowment contributions because it introduced the concept to a range of potential contributors both on the island and on the US mainland.

Consultants interviewed 34 community and business leaders during a three-month period. The first part of the interviews consisted of discussing the roles and objectives of community foundations. The second part explored the company or organization's policy toward community giving, its record in recent years and its plans for the future. The third part consisted of reactions to the proposal to create a community foundation in Puerto Rico.

One strategic focus of the study was US corporations operating on the island. They were identified as a good source of potential funding because they received considerable tax benefits for locating in Puerto Rico (these corporations are referred to as "936 corporations" for the US tax regulation under which they are instituted).

The consultants met with positive responses in the majority of interviews. Their findings, summarized below, suggested that both US foundations and 936 companies were good potential sources of endowment funding:

- The heads of major associations interviewed expressed support for the community foundation: the Puerto Rico Manufacturers Association, the Puerto Rico Bankers Association, the Pharmaceutical Industry Association, the Puerto Rico Chamber of Commerce

- Most leaders interviewed responded that the PRCF should have no difficulty in raising from the private sector US$ 3 million in matching funds over a three-year period

- The PRCF would not compete with the Puerto Rican United Way

- The timing is good for the following reasons:

  1. The 936 corporations, in part responding to pressure from the U.S. Treasury and the recent congressional amendments, would welcome a catalyst and an instrument to "do more in Puerto Rico."
  2. There is a growing consensus in Puerto Rico that the island needs to break the syndrome that only government can do things.
  3. Several new entities have been created recently by the private sector to increase its role in community affairs.
  4. Two Puerto Rican foundations are in the process of significantly increasing their grant-giving.[18]

It was also clear from the interviews that having an early strong commitment and support of individuals at The Ford Foundation and Schering-Plough (a 936 corporation) would be a key factor in the success of an endowment-building effort. Their support raised the credibility of local efforts and made them more likely to succeed. In addition, these two organizations participated in many of the early meetings and eventually, once the Board of Trustees was in place, announced intentions to contribute matching funds to the Foundation's endowment.

PRCF received commitments totalling US$ 4 million in challenge grants from these US foundations: the Ford Foundation, the Rockefeller Foundation, the Carnegie Corporation of New York, and the John D. and Catherine T. MacArthur Foundation. It was committed to matching these funds two-for-one from local sources and thus needed to raise a total of US$ 8 million by March 31, 1989.

Thanks to the efforts of two executives from Schering-Plough, PRCF raised matches from eleven 936 companies, two local banks and several smaller companies amounting to US$ 1,800,000 by the end of the second year of the campaign.

By 1989, PRCF exceeded its goal of US$ 12 million (US$ 4 million from US foundations and US$ 8 million from other sources) by just over US$300,000. It asked for and received two important agreements about the matching effort that helped it reach its goal:

- The deadline was moved forward six months to December 31, 1988 to enable them to realize several new endowment commitments
- US foundations accepted that an over one million dollar in-kind contribution of media coverage of PRCF's anti-drug campaign could form part of the match

The Drive Toward Permanence - The Second Campaign

Out of the experience of the first capital campaign—an effort to raise endowment assets—the Board of PRCF felt that it was ready to seek out new ways to establish a culture of local philanthropic giving in Puerto Rico that would sustain it over the long run. Some of the lessons they derived from the successes and obstacles of raising permanent endowment funds were:

- understanding the importance of local support
- acknowledging the key role a board member can play
- designating a budget for the endowment drive
- strategic use of a consultant to research funding sources[19]

In 1990, PRCF began to return to its closest supporters to raise the endowment to a goal of US$ 20 million. It reached out to them through direct contacts and request. In launching the second campaign, it hoped to seek out and strengthen local philanthropy by building on local traditions. Toward this end it incorporated the following approaches into its campaign:

- Build on the cultural chords that make people give. PRCF believed one important notion was to bring the family concept into the foundations
- Reach out to local celebrities to mobilize not only resources but local pride from the publicity that comes with involving them
- Produce visually attractive, professional material that conveys the notion of being solid, serious and stable[20]

One of the tools PRCF used was a case statement—often used to express why an organization should be endowed. PRCF's case statement is two pages long and is used along with examples of what it has accomplished to date. The statement carefully situates the foundation within a context of Puerto Rico's need to move away from government as the sole supporter of social programs and initiatives. It intersperses this argument with examples of its successes: (summarized)

The Case for the Puerto Rico Community Foundation

For over forty years, government had been seen by nearly everyone in Puerto Rico as the source of all services, the solver of every problem, the giver of all benefits and the initiator of all economic activity.

This was the legacy of four decades of transformation in a society that had changed from a one-crop, absentee-landlord economy in the 1930s, tinged with many vestiges of feudalism, to a fast-growing, increasingly diversified, manufacturing based economy of the 1960s and 1970s.

It was a fitting role for government to play, early in that period. It had to take the lead in showing the community the road towards self-respect through self-sufficiency and in spurring private capital into action along that road. The government played the role well, so well, in fact, that Puerto Rico was often held up as a model for other developing societies to emulate.

But the transformation is not yet complete. Many of the old social and economic problems persist, and many new ones have emerged as a concomitant phenomenon of rapid modernization.

In recent years, it has become ever more obvious that the government cannot—indeed, should not—continue to be the provider of all things to all people. This is particularly true in an increasingly complex society, complex in terms of its economy, its aspirations, its social makeup and its patterns of production and consumption.

But there is nothing to fill the void between government initiative and social need. In Puerto Rico, different from the United States, there has not been a strong tradition of private philanthropy to fill the gap between what the community needed and what government could provide. Compounding this lack is the fact that, until very recently, the national philanthropic foundations, who play so large a role in community development on the mainland, had been singularly inactive on the island.

Yes, Puerto Rico had been ripe for someone—something to come along and act as a complement to government in attempting to find solutions to the myriad problems that persist, plus the many that have emerged hand in hand with development and modernization...

Into this reality, the Puerto Rico Community Foundation was born in 1985.

The Foundation has brought something new to the island. In its short existence, it has institutionalized and professionalized philanthropy in Puerto Rico. It has demonstrated that a need for this type of organization existed and that well-managed giving promotes corporate and individual philanthropy. Its success has drawn the attention of civic-minded groups in various Caribbean and Latin American countries, many of whom have come to the island to learn how the Foundation operates, with a view towards replicating its success story in their countries.

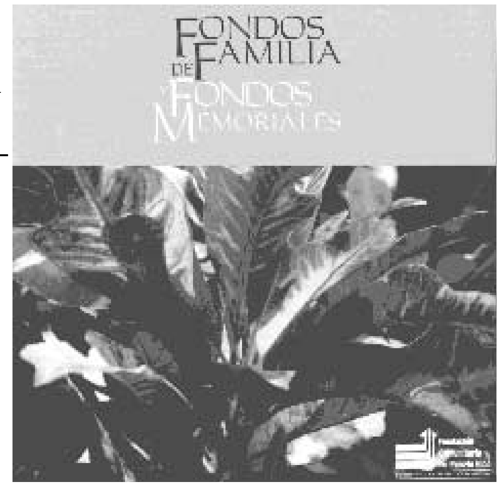
The need now is to build on that success, to give the Puerto Rico Community Foundation a strong boost that will firmly establish it as a permanent and highly valuable community tool to help Puerto Rico cope with the challenges of the present and the future.

One thing we can assure is that in granting our request for significant support for our endowment, you will have made one of the best investments in Puerto Rico. As we believe you will conclude after reading this and the attached material, no one else on the island is more effectively using available resources in helping solve the structural problems of society and in building a more stable, better Puerto Rico.

Be our partner in carrying out this important enterprise to its ultimate potential![21]

The Family Funds

In addition to returning to its closest supporters, PRCF announced its intent to begin raising funds locally from families that wanted to create a legacy by supporting the development of the Puerto Rican community. PRCF's 1990 Annual Report describes the role and context for the launching of these family-designated funds:



…. The Drive Towards Permanence does not rely solely on the continued and repeated support of the original backers. In keeping with our objective of stimulating the growth of private philanthropy, we have created new ways to raise funds and give donors recognition for their support. Notable among these new approaches is the Families Fund. Under this concept any member of a family who wishes to establish a permanent legacy in the name of a particular member of the family—or in the name of the family as an entity— may do so through the Foundation.

The mechanism is simple: the individual or family who wishes to create the legacy donates an amount, as a one-time contribution or as an open-ended one to which sums are added periodically to the Foundation, with the proviso that the money be added to the Endowment Fund and that the proceeds thereof be utilized in whichever way best reflects the interests of the person honored.

The specific use can be, for instance, as general as "for educational purposes," or as specific as "for programs in mental health." Or it can be simply given in support of the Foundation's general programs. From the Foundation's point of view, the less specific the use designation, the better. But some donors have very valid reasons to be specific, as could be the case if the person in whose name the fund is established was, for example, a science teacher, and the family may wish to honor him or her by supporting education in the field of science. Unless the desired restriction is too specific, it can generally be accommodated within the six broad areas of interest that the Foundation has defined for itself: health, education, community development, economic development, culture and the arts and crime and drug abuse prevention.

The Families Funds is not just an idea. It is an ongoing program. The first fund was established in 1990 by the Margarida-Julia family, to honor the memory of Doña Maria Luisa Saldaña de Juliá, the wife of Dr. Mario Juliá. Her unflagging support of her husband was instrumental in helping him achieve many goals in the field of mental health. Other Family Funds are in the process of being established and the present trickle is expected to become a significant stream which could contribute importantly toward the US$20,000,000 goal and continue to grow indefinitely.[22]

By 1997, PRCF had 20 family funds worth a total of US$39,461, the smallest equal to US$50 and the largest equal to US$10,000. The Family Funds have so far yielded small return in regards to effort, but PRCF considers it one of its most successful programs. Nelson Colón, PRCF's program director, noted:

> I believe it is perhaps the most powerful instrument that we have to build family and individual philanthropy in Puerto Rico. It is a new path, departing from the old blueprint of our US foundation partners. We are now working in one of the most difficult areas, which is the building of local philanthropy.
>
> The critical piece is that although the yield is low compared to the large grants we received from US foundations and corporations, the fact that we have 20 family funds open is a major stride toward a new philanthropic tradition.[23]

Colón believes that three components for the initial success of the Family Funds Program are:

- **PRCF provides matching funds for family funds.** Every dollar contributed to a family fund is matched with fifty cents from the Foundation. This has provided a strong incentive for giving.
- **PRCF's marketing campaign has been effective.** The brochure has been well received. In addition, PRCF produced a video that ties into local cultural and social traditions. PRCF uses the video in meetings and professional conferences. Another approach is working with estate planners.
- **There is a strong connection between the concept of family funds and the way that philanthropic activity normally happens** in Puerto Rico. Philanthropy happens through inheritance, parents will leave money to their family and ask the family to support some sort of charity. PRCF's Family Funds offers people a way to build on this local tradition.

PRCF has also started working on another approach called the Stars Funds. Through this concept, it seeks to cultivate highly placed celebrities, mostly baseball players, by inviting them to open a fund at the foundation with some of their earnings. In 1998, PRCF had one fund opened with US$100,000. The plan is to make the Stars Funds attractive to celebrities from all types of occupations

Example 3 Debt-for-Nature
Foundation for the Philippine Environment

The Foundation for the Philippine Environment (FPE) was organized and formally established in 1992. The financial base for its establishment came from a debt-for-nature swap carried out with funds from the US Agency for International Development (USAID) and the Bank of Tokyo.

The effort to raise an endowment began with discussions between the governments of the United States and the Philippines and a strategic lobbying effort by a coalition of Philippine environmental organizations—Green Forum Philippines. In 1990, as a result of these discussions, the US Government signed into law the Foreign Assistance Act, under which the Natural Resources Management Program emerged as a focus of USAID. Of the US$125 million of new bilateral assistance for the Philippines, US$25 million was earmarked for a Resources Protection Component to support local activities for biological diversity and sustainable resource management.

The Philippine Government and USAID negotiated the use of this funding. At the same time, discussions between the Philippine Government and the NGO sector gave rise to the idea to use part of this assistance to create a permanent endowment to fund environmental activities. Subsequently, some of this assistance and a contribution of the Bank of Tokyo was used to buy Philippine debt and is the base of FPE's US$22 million endowment.

Negotiating and Conducting the Swap

The Foundation itself arose out of a successful negotiation that included Philippine environmental organizations and the US and Philippine governments. These negotiations did not always go smoothly. Both the need for US congressional agreement and the interests of Philippine organizations to ensure that any endowed foundation would have local autonomy had to be incorporated into the process.

US Government action to support environmental conservation in the Philippines was premised on a policy of supporting the historic change-over of government (from the dictatorship of Ferdinand Marcos to a more democratic system) and the democratization process underway in the Philippines. USAID saw an opportunity to pioneer a new era in development aid that would incorporate NGO participation and substantial support for the environment. Endowing a foundation offered a particular advantage in that it meant the Agency could make a significant single contribution that would have a long-term sustainable impact. As Eugenio Gonzalez, a Philippine NGO leader who played an important role in the discussions noted:

> There is a bureaucratic advantage built into an endowment. Put 100 million dollars in an endowment and you would have spent 100 million dollars in one click. If you don't put it in an endowment, you spend it over several years.[24]

In order to start the process of negotiating the funding for the debt-swap, the US Government chose a US NGO, the World Wildlife Fund (WWF), to act as the implementing agency. After USAID signed this agreement, Philippine NGO negotiators insisted that an American NGO should not be given full "trusteeship" over a Philippine project. They identified two conditions for their involvement in the FPE establishment process:

- The Foundation should be NGO-dominated and managed
- The Philippine Business for Social Progress (PBSP) should be included in the cooperative agreement

Subsequently, WWF signed a cooperative agreement with PBSP in July 1991. Both NGOs were mandated to provide technical assistance to FPE during its first two years, and would jointly administer an Interim Grants Program so that funds would be available immediately to NGO applicants while FPE was being formalized.

Structure of Agreement

The debt-for-nature swap was structured as follows:

> Start-up financing came from USAID, which—through the Resources Protection Component of its Natural Resources Program—provided the grants that established an endowment that is worth [in 1995] about US$22 million in Philippine pesos. The Bank of Tokyo also made a US$200,000 debt donation to the World Wildlife Fund for the Foundation. The FPE endowment fund is in the form of special series Philippine Central Bank notes. The interest income earned from these notes is used by the Foundation in funding biodiversity conservation projects of NGOs as well as some proactive programs.[25]

Sells possibly uncollectable debt notes at substantial discounts	Receives grants from international funding agencies, e.g. USAID and Bank of Tokyo, to be used for the retirement of part of the Philippine external debt Buys national debt notes in the secondary debt market Requires that the proceeds of the debt conversion be used for conservation projects	Converts the debt notes into local currency at a stipulated conversion rate	Receives debt swap proceeds in the form of an endowment Uses the interest on the endow-ment fund for environment projects/ programs

26

Investment and Management of the Endowment

Even before FPE had raised an endowment, it began putting in place investment and management policies designed to safeguard and grow the fund.

FPE established a Finance Unit headed by a Financial Manager who is backed up by a Project Financial Analyst. The responsibility of these staff include the overall financial management and coordination, accounting and investment policies. The Financial Manager develops a program for obtaining the highest yield for investable funds and submits this for the approval of the FPE's Executive Director. The Financial Manager also coordinates with investment managers on the management of investments. Any change in policy and assessment of the manager's performance is undertaken by a board-level investment committee.

The investment policies that follow come from a December 1997 FPE Board meeting and take into account a negative economic climate that year. In addition to the endowment policies and "growth fund," FPE also included policies on investing "float"—grant and operations funds committed and allocated but not yet released.[27]

INVESTMENT POLICIES As presented, December 12, 1997

A. BACKGROUND

The Foundation's investment policies are intended to serve the Foundation's basic requirements as follows:

1. Safety of Principal
2. Liquidity of Funds
3. Sufficient Returns
4. Long-Term Growth of Fund

To enable the Foundation to attain these objectives and at the same time perform its functions, the Foundation tries to invest and budget in ways that produce relatively smooth spending patterns from year to year, while preserving the real value of the investment portfolio.

The following table shows the asset allocation of the FPE's portfolio at the end of September 1997. The fixed income investments is composed of short and long-term government securities or 94% of the total portfolio, while equities and other liquidity accounts accounted for the remaining 6% of the total funds.

Portfolio Components
(as of September 30, 1998)

	Market Value (In thousands of pesos)	Percent to Total
Fixed Income Investments		
Long-term Securities		
20-yr bonds	318,060	54
5-yr. [fixed term notes]	82,207	14
4-yr.	18,680	3
3-yr.	33,491	5
2-yr.	59,924	10
Short-term	36,767	6
Equities	24,509	4
Liquidity Accounts	14,103	2
Total	587,741	100

** Market value includes accrued interest earned*

B. ECONOMIC INDICATORS [Short section that details key economic indicators and market assumptions in 1997]

C. INVESTMENT POLICY

ENDOWMENT FUND		
Decision Points	**Policy**	**Remarks**
• Time Horizon	• Short to long-term	Investments can be placed at short and long-term securities or other investment outlets with maturities of less than a year.
• Risk Tolerance	• 80% - 100% Fixed 0-20% Equities	Fixed income portion may be invested in Income government securities, commercial papers, promissory notes, participation in loan syndications (will be subjected to stringent scrutiny). Equity investments should not exceed 20% of the total portfolio.
• Policy review and revisions	• Board of Trustees	Investment Committee Investment policy review and revisions will be initially handled by the investment committee for final approval by the Board of Trustees. Review of the policy will be conducted annually after the fund managers presentations of their annual report to the investment committee. Quarterly assessments of the fund managers performance is also being undertaken by the investment committee.

FPE also set aside and investseda special "growth fund" with the primary objective of providing an additional source of funds in the future. This fund is more risk tolerant and allows program-related investments (PRI), another financial mechanism through which a foundation can pursue its objectives. As an FPE Board document explains: [28]

> Program-related investments are another way for FPE to achieve its objectives. These can be loans, although they may be loan guarantee or equity investments. Their distinguishing factor as compared to grants is that they are recoverable. As such, they can enlarge and recycle foundation resources. These investments involve a greater risk and pay a higher return than conventional investments, and the benefits are many. They help recipients close credit gaps, leverage additional financing from other private sources, accumulate assets, and produce income to sustain their operations. The repayment terms of the PRIs range from medium to longer terms to permit the borrowers to build their financial strength over time. The borrowers can be local cooperatives, people's organizations or selected NGO's.

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