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THE COMMUNITY WORLDWIDE

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Microfinance – a development revolution?

Setting up a community foundation in Russia

The challenges facing Japanese foundations

CCI as R&D? A new approach to measuring
the success of CCI programmes

CAF

Providing the information
service for funders

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Bolivian weaver and recipient of FIE loan (see p10).

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This issue of *Alliance* includes several features on microfinance and community foundations. From now on each issue

will examine a particular theme that is prominent on the funding community's agenda – with the emphasis on offering a challenging, perhaps controversial, viewpoint. The next issue, for example, assesses different approaches to development in India and which is the right way forward.

I am pleased to be able to announce two new regular columns, by The Corporate Citizenship Company and by Delwin Roy.

Enclosed with this issue you will find a questionnaire seeking information on which countries and which copies you are interested in. Please fill it in – in doing so you will help us to provide the information funders need.

My thanks to those of you who wrote to say you liked the first CAF issue of *Alliance*.

CAROLINE HARTNELL Editor



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Editorial In 1993 Pierre Calame, President of the Fondation pour le progres de l’homme, told a conference in Paris, ‘The most worrying aspect of the present crisis is that, for the first time in history, the rich no longer need the poor.’ Five years later he might have expanded on this to say that in an age of globalization and the Internet, multinational corporations and financial institutions no longer need nation states.

But if we are to seek to live in a civil society, we must recognize that we are all in this together. Do we accept increasing insecurity in our working lives, in the way we live, or do we believe that something can be done? A growing number of people see stronger local communities as one part of the answer.

Some of the articles in this issue of Alliance look at complementary ways of resourcing those communities through microfinance initiatives and community foundations. They start to shed a little light on some of the imperfections as well as the successes. Above all they remind us that, imported like a McDonald’s franchise, they can be part of the problem: solutions only begin to be found when they take account of local people, culture, economic and social capacity, whether or not people trust each other, and when they work with the community to develop a livelihood strategy as opposed to a purely financial one.

It is not the role of such programmes to change the world, but to allow the efforts of people within those communities to develop their own potential, often in less than ideal circumstances.

Malcolm Hayday
President, International Association
of Investors in the Social Economy

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MAI – bill of rights or race to the bottom?

Unobserved by the rest of the world, ministers from 29 of the richest countries have drawn up a far-reaching treaty known as the Multilateral Agreement on Investment (MAI).

Heralded as ‘the constitution of a single global economy’, MAI is essentially a ‘bill of rights’ for transnational corporations (TNCs). Like the North American Free Trade Agreement (NAFTA), MAI overrides the laws and policies of national and local governments, denying them the right to set ‘performance requirements’ for foreign companies and compelling them to treat all investors – foreign and domestic – equally.

Governments which breach MAI rules can be sued for damages by TNCs at an international tribunal.

Negotiations over MAI have been going on in secret at the Paris-based Organization for Economic Cooperation and Development (OECD) since 1995. Only after a draft of the agreement was leaked on to the Internet in late 1996 was there any public admission by the OECD of the existence of the agreement. At a press conference in October, the OECD insisted that no changes to the agreement were possible before its proposed signing in April 1998.

MAI is an attempt to provide a global legal framework for the treatment of foreign direct investment, which

has grown rapidly in recent years in both the developed and the developing worlds. It is based on the assumption that unrestricted investment and capital mobility will bring benefits to all.

But critics such as Oxfam and Friends of the Earth argue that the agreement will merely accelerate the ‘race to the bottom’. Developing countries, which have been excluded from the negotiations, will be forced to sign up to MAI in order to attract inward investment. They will then find themselves forced to relax environmental protection measures, labour regulations and so on in order to comply with its terms. In short, under MAI it will be illegal for countries to protect and promote their local economies – exactly the method by which the ‘Asian Tiger’ countries developed in the 1980s.

An international coalition of non-profit organizations (NPOs) from 70 countries has emerged to oppose MAI. It is calling for an international agreement on investor *responsibilities*, including environment, labour, health and safety, and human rights standards, through which ‘civil society can hold investors to account’.

Ironically, it seems that completion of the agreement may be delayed for at least a year because of opposition from the French and Dutch governments.

The new Marshall Plan – how generous are the benefactors?

‘Speeding transition – learning from the Marshall Plan’ was the title of one of three sessions at a conference in Rome in January 1998 hosted jointly by the Philip Morris Institute for Public Policy Research and the Istituto Affari Internazionali.

But can any lessons be learned? Can any comparison be made between the support now being given to central and eastern European countries and the Marshall Plan? The original Marshall Plan, designed after the Second World War to aid reconstruction of war-torn Europe, involved a far greater commitment, both politically and financially. The need to ensure that Europe climbed out of its crisis took precedence over US commercial requirements and blatantly discriminatory trade policies were tolerated. Today the aid offered to central and eastern

Europe seems to be very much on Western terms.

Andras Inotai, Director of the Institute for World Economics in Budapest, pointed out that much of the assistance given and quoted actually costs the benefactor nothing, or at least no additional funds (eg debt restructuring), and should not be confused with aid. Even when funds are allocated, there are major problems with its disbursement. This is partly, he believes, because most of the funds apportioned are intended to go, directly or indirectly, back into the pockets of the donors’ compatriots – indeed some pro-



Research scientists will now have to ask tougher questions about where their money is coming from.

Cancer research charity says no tobacco funding

In a move which it hopes will set a universal standard in medical research, the UK Cancer Research Campaign (CRC) is to withdraw all grants from universities and research institutes which also receive funding from tobacco companies. The CRC currently provides grants of £49 million to research teams.

A code of practice setting out the charity's stand was sent out to universities, research councils, the Department of Health, the BMA and other organizations in October last year for consultation. A final document is expected in June. After this, according to the CRC's Director of Communications, Susan Osbourne, 'there won't be any negotiation'.

The measure, which has been backed by the British government, the European Commission and the Imperial Cancer Research Fund, was prompted by the creation of the Sheehy Chair in International Relations at Cambridge University

in 1996, following a donation of £1.5 million from British American Tobacco. Most tobacco funding, however, is not made public, and the CRC hopes to 'seek agreement by scientific journals to require full disclosure of funding sources from authors'.

It is estimated that 20 British universities receive tobacco money, but so far no universities have said that they will not abide by the new code. The Medical Research Council, the largest UK public sector funding agency for medical research, has refused to back the code, insisting that it 'does not blacklist particular companies'.

Individual donors flex their muscles?

The New Museum of Contemporary Art in Chicago has sued a couple for failing to honour a \$5 million pledge they made in 1990, the *Wall Street Journal* reported on 13 January. Paul and Camille Oliver-Hoffman felt the museum was 'spending too much before getting sufficient revenue and that the board should take a more active oversight role'. While the *Wall Street Journal* saw this as a 'new twist' in the growing problem of donors failing to honour their pledges, it can also be seen as donors asserting their right to have some influence over the way their donations are spent.

grammes seem almost designed to solve the donor country's unemployment problem rather than the problems of the recipient country. Trade between Western Europe and CEE countries has increased EU exports by 3.6 percentage points between 1992 and 1996.

Another problem for CEE countries is that the costs of meeting the conditions for accession to the EU – far more stringent than those set for previous EU entrants – have to be met from their meagre national budgets before they have access to any EU funds as a result of becoming members.

An international lottery for the millennium?

Rumour has it that an airline is testing a prototype lottery. It seems that no country or regulator can prevent a lottery being run on or over international waters. It follows that no regulations are available to decide what profits might be made or whether *good causes* would benefit to any extent.

But it is a fascinating idea that an airline could run an unregulated lottery once out of sight of its home base. After hours of punting the

senior cabin steward might say, 'Last purchases of duty free and of lottery tickets will be in five minutes.' Global funds collected by the year 2000 might be distributed to charities as a particular airline's contribution to the environment or children.

This is not altogether fanciful – and you could add cruise liners or duty-free shops. Bored customers with full purses could generate millions for the world's poorest?



Private business, and multinational corporations in particular, account for a rapidly increasing proportion of GDP in countries throughout the world, but how much are they contributing to the open,

pluralistic societies in which they thrive? This column will look at the role transnational companies play in supporting the communities where they do business.

As we approach the new millennium the great changes of the last two decades have set the scene for a worldwide pattern of social organization. It is based on the institutions of public, for-profit and non-profit sectors working separately and together, within the context of the informal relationships that are the basis of family and everyday life. Only a few countries, such as North Korea and Cuba, resist this model of social organization; for them the state dominates all aspects of economic and social life.

David Logan and Michael Tuffrey are founding directors of The Corporate Citizenship Company, London and New York. David Logan wrote the column for this issue.

Global power brings global social responsibility: the challenge to business

Most other countries (industrialized and developing alike) have now rejected the dominance of the state and are increasingly fostering a large new for-profit sector through a wave of denationalization and deregulation. The boundaries of the state have contracted in the social sphere as well. A dynamic non-profit sector is emerging around the world both to provide human services and to campaign for social and environmental causes. Non-profit organizations (NPOs) are a vital part of a pluralistic society, but they are still barely established in most post-communist societies and developing countries (see Table 1).

TABLE 1 Estimated size of the independent non-profit sector as a percentage of GDP in selected countries in 1994

Country	Non-profit expenditures as percentage of GDP
USA	6.3
Britain	4.8
Germany	3.6
France	3.3
Japan	3.2
Italy	2.0
Hungary	1.2
India*	0.5
China*	0.2

Source *The Emerging Sector: An Overview*, by Lester M Salamon, Helmut K Anheier, Johns Hopkins University (religious and political organizations are excluded).

* Figures for these countries represent the author's best guess – independent non-profits are still barely legal in China.

Private business has been the main beneficiary of the great economic restructuring that has gone on in the post-Thatcher/Reagan years. Companies have never had more open global markets and now they have the communi-

Table 2 Company employees, suppliers and dependants compared to country populations when GDP and annual revenues for 1996 are approximately the same

Companies ranked by revenue	Revenue \$bn	Direct employees (million)	Estimated population dependent on the company (million)*	Countries ranked by GDP	GDP (\$bn)	Country's total population (million)
General Motors	168	647,000	9.7	Denmark	156	5.2
Ford	147	371,702	5.6	Hong Kong	142	6.1
Toyota	109	130,736	2.3	Finland	103	9.8
Hitachi	76	330,152	5.0	Philippines	72	67.8
Siemens	64	379,000	5.7	Venezuela	65	21.8
Philips	41	262,500	3.9	Ireland	53	3.5
PepsiCo	32	486,000	7.3	Morocco	30	26.5
McDonalds	11	237,000	3.6	Bulgaria	11	8.5

* Total estimated population dependent on the company is calculated by adding to direct employees backwards linkages giving three supplier jobs, forward linkages giving one supplier job for every direct employee and a notional figure of one spouse and two children for each employee and supplier.

Sources GDP/Population figures from 'World in Figures, 1998', *The Economist*. Company revenues and employees from *Fortune* magazine, 4 August 1997. Compiled by David Logan, The Corporate Citizenship Company.

cations systems to develop them. They are growing to great size, as Table 2 shows – much larger in cash and people terms than many of the world's nation states. In a country like China it is estimated that about half of the country's GDP is now in private hands, whereas 30 years ago that figure was virtually zero. In the USA the for-profit sector accounts for about 60 per cent of GDP, the highest proportion in the industrialized world.

Table 2 records the pre-eminence of the great companies from the USA, Europe and Japan. McDonald's is ranked 426 in the Fortune 500 list whereas Bulgaria is the world's eightieth largest country ranked by GDP. These companies will increasingly be joined in the Fortune 500 list of Global Firms by companies from China, Russia and major developing countries like Mexico and South Africa.

It is these profoundly international companies, especially from the industrialized nations, that should be taking the lead in setting standards of corporate responsibility and social engagement around the world. Companies do best in open pluralistic societies and should play a role in strengthening the non-profit and public sector organizations that are vital to their institutional framework and culture. They are headquartered in countries where such behaviour is expected and normal. As they spread their investments around the world in newly established, economically and socially open societies, they need to take with them the ethics and values of

social engagement they take for granted at home. Unfortunately, too few have done so.

The UN estimates that there are at least 34,000 transnational companies in the world with some 280,000 foreign affiliates. While being decisive and creative in the pursuit of new business opportunities, most large companies ignore or are deeply ambivalent about their wider role in society. Companies like IBM, Levi Strauss, American Express, BP, The Body Shop, Novartis, Hitachi, Anglo American and San Miguel have led the way in trying to create international corporate responsibility practices; the challenge is to get others to follow them.

International companies have gained extensive new 'rights' to invest and do business in the past 20 years. They also need to recognize that with these rights comes responsibility to the social whole. It often costs very little to help the public and non-profit sectors, and with the right programmes the long-term and bottom-line benefits to companies from community partnerships can be very substantial.

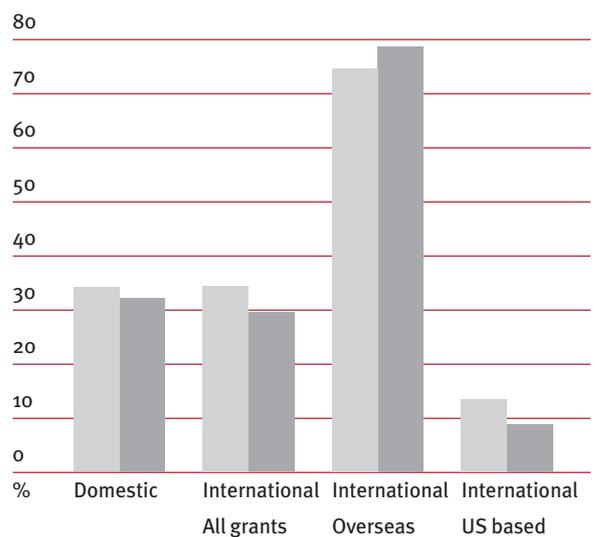
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More US foundation money goes overseas

The nature of international funding by US foundations is changing, according to a new report by the Foundation Center and the Council on Foundations. A study sample of over 1,000 large foundations shows a 34 per cent rise (18 per cent in real terms) in international funding between 1990 and 1994. Behind this increase *International Grantmaking: A report on US foundation trends* reveals a rapid growth in funding to overseas recipients, with US-based international programmes receiving proportionately much less. Among sampled foundations overseas giving increased by 74 per cent from \$166 million to \$289 million.

The overall share of funding given to international programmes by US foundations remains constant, however, at 11.5 per cent, arresting the major shift in favour of international funding which occurred during the 1980s.

Comparison of growth of domestic giving, international giving overseas and US-based international giving by US foundations, 1990–1994*



Source *International Grantmaking* (1997).

* Based on a sample of grants of \$10,000 or more from 821 foundations for 1990 and 1,020 foundations for 1994.

Legend:
 Change in dollar amount
 Change in number of grants

International Grantmaking is reviewed on p34.

Something stirring in Bangkok

Michael Brophy

EVENT

Asia Pacific Philanthropy Consortium Conference

Date 9–11 January 1998

Venue Bangkok

Main focus Building civil society in the Asia Pacific region.

The Bangkok conference was the best of its kind that I have been to for years. Why was this?

The economic crisis in Asia created an atmosphere in which advances in civil society are clearly necessary. This is always so at times of unrest. In England during the chaos of the Elizabethan years. In Japan at the time of the Kobe earthquake. The European Foundation Centre impetus came from the fall of the Berlin Wall in 1989.

During the conference President Clinton phoned President Suharto for (we are told) 25 minutes to say 'reforms or no aid!' So the crisis indicated opportunity and necessity.

But what happened in Bangkok?

A hand-picked list of 100–150 people from Japan, China, India, Pakistan, Sri Lanka, Bangladesh, Thailand, Vietnam, Australia, India, the Philippines and Indonesia came together to debate how to put civil society on the agenda

for governments, business, NGOs and individual people in the region.

Answers there were none, but suggestions there were many, and many of these were surely right. My own reflection was that the people of Asia are likely to leapfrog Western non-profit organizations just because these crises will force them to find new solutions. At the conference I heard a Cabinet Minister say, 'I ran an NGO for 20 years before becoming a member of the government. If NGOs and advocacy groups want to be really smart let them get into government and run things themselves.' This augurs well for a more overt and mature NGO–government relationship than we have in the UK.

Companies will also have to say what they can do socially to help with *survival*. Not here is a little gift of money! But how to preserve and fashion their society for the future.

A *masterclass* came last like the best wine. Colin Campbell, President of the Rockefeller Brothers Fund (active in the region), spoke over the closing lunch about *partnership*. This would normally be a recipe for sleep. Well it wasn't! It was a brilliant exegesis of when partnerships are needed, how they are arrived at and when they should be terminated. It kept even me awake!

So in Bangkok something stirred, like a good fry in a wok; it was fresh, hot and vibrant.

Colin Campbell's speech is published in full in *CAF Focus*, published with *Alliance*.

Michael Brophy is Chief Executive of CAF.

IN BRIEF

Fortune ranks most generous Americans

Ted Turner's donation of \$1 billion to the UN puts him at the head of the Fortune 40 list of America's 40 top philanthropists, published in the 2 February issue of *Fortune*. Behind him comes Kathryn Albertson, whose late husband began Albertson's grocery stores (\$660 million to improve public education in Idaho), George Soros (\$540 million) and Bill Gates (\$210 million).

International companies to increase CCI

Sixty-nine per cent of international companies intend to increase their CCI activities over the next five years, according to the preliminary results of a survey carried out by the UK-based Prince of Wales Business Leaders Forum between August 1996 and August 1997. Good local image was seen as the most significant corporate benefit, followed by employee motivation. Nearly 250 companies were surveyed, and around 100 responded.

Shell U-turn

Last summer Shell resisted shareholder calls for greater accountability and openness, but the company has now agreed to publish a social responsibility report, to be followed by an audited environmental statement in June. Its new statement of business principles gives explicit support to human rights. The social statement will measure the group's record against its new business principles.

Global framework for non-profit statistics

In November 1997 the US-based Johns Hopkins Institute for Policy Studies (IPS) signed a memorandum of understanding with the United Nations under which IPS will develop a handbook which the UN will circulate to statistical offices throughout the world to guide them in assessing the scope, structure and composition of the non-profit sector in a systematic way. This is the first time that the UN Statistical Office has turned to an outside group to help it in implementing the UN's System of National Accounts, which is the principal guidance system for national income accounting throughout the world.

The agreement is a by-product of IPS's Comparative Nonprofit Sector Project, directed by Dr Lester M Salamon, which, over the past five years, has been charting the development of the non-profit sector in some 25 countries.

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Microfinance

A development revolution?

M Pilar Ramirez

'The ability of these institutions to lend effectively beyond the "frontier" of those who have collateral to offer, when those safely behind the frontier make much bigger losses lending to more prosperous people, is one of the most extraordinary achievements of development policy in our time.'

Paul Mosley, University of Reading, England, 1995¹

Microfinance services, established and operated by non-profit organizations (NPOs), are an ingenious way of giving 'the poor' of the world access to affordable financial resources. A 1996 World Bank survey found that 206 institutions had about US\$17 billion in outstanding small loans to more than 13 million individuals and groups as of September 1995.² Yet these impressive figures did not gain real attention until the Microcredit Summit held in Washington DC early in 1997 made the topic the subject of headline news and worldwide development euphoria.

Why all the excitement?

Why is microfinance considered to be today's 'development revolution'? Why are donors now paying serious attention to what countless NPOs around the South are achieving in terms of amounts of money lent, loan recovery rates, numbers of clients reached, incomes increased and new jobs created?

The answers to all of these questions is, amazingly, only one. Microfinance services, successfully operated, provide – literally – millions of households with financial resources that without doubt contribute to improving their economic situation. And – what is most noteworthy – this is achieved at a significantly lower cost, in terms of development funds, when compared to most other poverty alleviation and income-generation interventions tried before. As was recognized by an official of a major international cooperation agency, the UNDP, 'microcredit is one of the most powerful development assistance tools we have'.³

What is microfinance?

Simply put, microfinance services are usually started by NPOs as a solution to problems related to two conditions:

- ▶ a chronic lack of cash to support or start economic or income-generating activity by individuals or groups living in poverty;
- ▶ the absence of private and public formal sources of credit for low-income populations.

By providing access to the cash that is needed, these programmes have shown dramatically that the poor are credit-worthy, that they repay the loans received, and that they do so at interest rates that are usually higher than those available at commercial banks. This access to loans results in thriving microenterprises and other economic activities managed by 'the poor', improved incomes, new sources of employment, and improvements in the living conditions of those receiving the loans.

From the point of view of the organizations behind the programmes, successful services result in growth for the organizations themselves: growth in resources, in outreach capacity, and in self-sustainability.

How can you lend to the very poor?

None of this would be possible if there were any doubts about the clients' ability to repay the loans. It is an undeniable fact that lending to the poor makes excellent business sense. Loans given on affordable terms to poor people show excellent repayment rates, and when economies of scale are exploited in order to make the operations cost-effective, the making of such loans is profitable. The benefits are therefore twofold and reinforcing: as more clients receive more loans and repay them, the pool of funds available for the implementing organization increases, allowing it to give out even more loans.

'Affordable terms' does not mean cheap or subsidized. The programmes would end very quickly if

1 Paul Mosley and D Hulme, *Finance Against Poverty*, Chapter 3, Routledge, 1995.

2 World Bank, 'A Worldwide Inventory of Micro-finance Institutions', *The Sustainable Banking with the Poor Study*, Washington DC, July 1996.

3 James Gustave Speth, UNDP Administrator, in *Microcredit Summit draft Action Plan*, 1996.

such were the case, because processing and managing many very small loans is expensive. In order for the operation to make economic sense, the interest rates must reflect this expense and as such may be higher than rates in the banking sector. But it is clear now that what poor people need is *access* to loans. And the economic activities serviced by these programmes need credit that is available long enough to allow the clients' economic activities to grow. Access and continuity depend on programme growth and sustainability, and this in turn depends, for the most part, on income gained from interest rates. The cost (interest rate) of obtaining the loans is therefore a secondary consideration for clients: they know that lower interest rates may be available elsewhere, but from institutions (banks) that do not service them.

Starting up a microfinance programme

Even assuming one has the necessary funding to begin, the establishment of a microfinance programme is no simple matter. In addition to having some basic knowledge of credit methodologies and procedures, the implementing organization must consider certain other issues before initiating a programme.

Knowledge of the sector receiving the loans is the first priority. The sector's previous experience with credit, if any, must be taken into account. Understanding the formal financial and legal context is also important. Finally, and very importantly, in most countries inflation requires these programmes to adopt measures to maintain the value of their funds.

Of course, there may be sectors of the poor – perhaps the 'poorest of the poor' – who will not benefit from credit at all but need other types of support. The impressive results of some microfinance programmes, coupled with a justified donor impatience for poverty eradication, have perhaps led to over-enthusiasm about microfinance as a blanket solution. This in turn can distort facts and create false expectations that will be harmful in the long run. Microfinance programmes must be very clear at the outset about the 'target group' they expect to work with and if credit is the best way to support that group.



This clothing workshop operates in one room of a two-room house. It is one of many small businesses that has benefited from a loan from FIE, the successful Bolivian microfinance organization.

How much funding is needed?

Initial financial resources vary between programmes. Some started with major donations from international donors, foundations, private enterprise, etc, while others were begun with very little financial and/or external technical assistance. The Trickle-Up Program in the United States, for example, started with only US\$1,000 of the founders' own money, some computer equipment on the dining room table and a part-time secretary.⁴

But financial resources for the lending operations and for acquiring technical assistance in microfinance know-how are very important. Successful programmes have generally moved along a continuum from being totally dependent on donor funds to increased levels of self-sustainability, where income equals or exceeds expenditures. We have learned from these programmes that the process of development has two phases:

- ▶ a start-up or institution-building phase, which requires significant amounts of non-refundable funds or grants;
- ▶ a consolidation phase of expansion of activities towards self-sufficiency, where other sources of funds – usually refundable – must be tapped.

Donor funds and sustained support from international cooperation agencies for these programmes are specially crucial during the start-up phase.

⁴ New York Times, 12 November 1997.

How long will the start-up phase last?

How long the programme operates on donated funds depends on those involved having the business sense, even as a non-profit, to work towards self-sustainability. The only way to approach microfinance is to realize early on that income gained through increased volumes of operations will bring a programme to a break-even point. Working towards this goal will afford the programme credibility and prestige in the local lending market and open doors to new sources of funds.

At this stage the programme is ready to borrow funds, usually at market rates, either from local commercial banks or from specialized agencies within international cooperation institutions. Many of these agencies now have credit lines for microfinance as part of their regular operations.

Donor agencies that have been following the results of microfinance programmes now point out that grants for equity are of strategic importance in enabling organizations to build a capital base for increased outreach and sustainability. These grants for equity can be used to generate investment income, build the loan portfolio, and leverage funds from local banks. They help lower the overall cost of funds during the period it takes to build efficient operations and reach economies of scale.

The future for microfinance

It was hard to imagine where this work would lead when non-profit microfinance programmes started. As an immediate solution to lack of access to sources of credit for poor populations, it was thought that the trend would point to formal financial institutions taking on this clientele, while the NPOs implementing the programmes moved into other needed areas of work. 'Graduating' poor clients to banks was often a stated goal of these programmes. But ... the formal financial institutions did not open their doors to the microborrower – or were too slow to see the financial potential of doing so – and governments and other donors alike began to realize the opportunity for channelling development funds to these programmes.

Why not encourage and support these programmes to transform themselves into formal microfinance institutions? This was the question being asked, and

measures to make this possible were set in motion. Financial legislation is changing in many countries and, where this is happening, the door is now open for NPOs working in microfinance to become formal financial institutions. Formalizing entails many new challenges, most important of which is being able to offer a new service to the clients: savings.

Mobilizing savings – the key to sustainability

From the point of view of the clientele savings services, like credit, meet a felt need. The rural poor, in particular, need a secure place to place their small savings and the assurance that they can withdraw these savings when needed. Commercial

5 Marguerite S
Robinson, Harvard
Institute for
International
Development.

Rajamma's story

Rajamma used to do housework in upper-caste homes in Karnataka, India, so she could feed her daughters the leftover scraps of food.

In desperation she borrowed money from a rich landowner but, unable to repay him, she was forced to send her daughters to work in his house as virtual slaves.

At first Rajamma was reluctant to join The Bridge Foundation's (TBF) self-help group and thought they would reject her because of her caste. At her first meetings, she would not sit with the other members.

Eventually Rajamma took out a loan of Rs 7,000 (US\$196) to purchase a milk cow. Within ten months she had repaid the loan and released her daughters from their bond. Now Rajamma owns the cow and a female calf and earns over Rs 1,200 (\$34) each month. With her savings she has bought land and irrigated it for cultivation. Rajamma's eldest daughter is learning tailoring while the younger girls are in school.

With visible pride, Rajamma says she has regained her dignity and self-worth; she is an active member of the group and accepted as an equal in her village.

Rajamma's story is one of the many which inspire the work of the Microcredit Summit.

More than 2,900 people from 137 countries gathered at the Microcredit Summit in 1997 to launch a decade-long campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005.

Over 10,000 copies of the first issue of the summit newsletter *Countdown 2005*, featuring discussions of best practice and examining available resources, have been distributed. *Countdown 2005* is now available by subscription in English, French or Spanish.

For further information
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Summit:
Tel +1 202 546 1900
E-mail
microcredit@igc.apc.org
See p47 for details of the
1998 Microcredit Summit.



Women street vendors in Sa Paz, Bolivia, have also received loan finance from FIE.

Pilar Ramirez is an FIE board member. In 1985 she encouraged four other women to join with her in starting FIE, the first urban microfinance NPO in Bolivia.

FIE – an example from Bolivia

FIE, in Bolivia, is a typical success story. Started in 1985 as an NPO dedicated to providing credit for low-income individuals and groups in the so-called ‘urban informal sector’, FIE began with very little funding and hardly any international support. A staff of almost 200 now works in 14 FIE branches; so far the organization has lent over US\$65 million, in loans averaging less than US\$700 each. Its current loan portfolio is US\$12.2 million, servicing over 22,500 clients, 60 per cent of whom are women. This excellent performance and amazing growth have encouraged FIE to transform into a financial institution. FIE, Private Financial Fund opened its doors to the public in March 1998, offering its clientele savings services as well as loans. No small achievement for what started as a small non-profit servicing very low-income clients and their microenterprises.

What explains this success? From the very beginning, even as a non-profit, FIE’s approach was highly business-oriented. Its guiding principles are cost recovery, capitalization and full pricing.

Even the institution-building phase emphasized these principles, with the organization devoting itself to perfecting its individual lending methodology, acquiring knowledge of the clientele, improving the loan officers’ performance, and perfecting the software for loan portfolio control and daily performance indicator reports. FIE’s rapid yearly growth, in volume of loans, allowed it to reach break-even point during the seventh year of its credit programme. This performance – together with an enviable rate of arrears of as low as 2.9 per cent – qualified it for commercial loans from local banks to increase its lending funds. These results, and its capacity to access market-rate loans, forced the attention of both the local banking authorities and the international cooperation agencies, which agreed to support the NPO’s transformation into a formal financial institution.

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banks usually do not have offices in remote rural areas where the poor live, but microfinance NPOs do.

From the point of view of the institution, savings is the key to long-term sustainability.⁵ This is because being able to access savings, from big and small depositors alike, provides the institution with a new and easier-to-access source of funds for its lending programme. But this requires legal authorization. Microfinance NPOs are authorized to offer credit services, as NPOs, because the risk lies with the NPOs themselves and the institutions that provide them with funds. Savings mobilization, on the other hand, requires government authorization and supervision because the institution will be dealing with funds from the ‘public at large’ – the many hundreds of thousands of small savers who trust the institutions where they deposit their savings. It is

essential, therefore, that institutions collecting savings are properly supervised and legally authorized to offer the service.

Two-thirds of the world’s population live in poverty, and the majority survive through extremely small-scale economic activities that put food on the table for themselves and their families. Providing financial resources for those activities, by way of credit, allows these families also to obtain clothing, education, housing, health services, and an evident improvement in their working and living conditions. No wonder, then, that development practitioners, policy-makers and donors are looking seriously at what is happening with microfinance in the world today.

Failing to deliver the benefits?

Microfinance without community investment

Dede Bruku

Microfinance is seen as an effective way of providing the funds needed for improving the lifestyles and livelihood security systems of some of the world's poorest communities. In Ghana, as in most other parts of the world, microfinance provision has taken many different forms and has had very diverse effects. Some of these will be examined in this article, with a view to focusing on the need for extra funds for social development if the benefits of microfinance are to be fully realized.

As the name 'microfinance' implies, the enterprises supported by this kind of finance are usually very small, and loans are usually targeted at women, for a number of reasons:

- ▶ Women are often the most marginalized and vulnerable members of society.
- ▶ Women are often more credit-worthy than men because of their 'fear' of indebtedness. High repayment levels have been recorded among women, with as much as 95 per cent of loans repaid to some microfinance providers.
- ▶ Where credit is linked to social development, women have proved to be good vehicles of change and sustained growth through their widely accepted role as mothers. As one Ghanaian scholar put it, 'To educate a man is to educate an individual and to educate a woman is to educate a nation.' Mothers are often more suited for family support than fathers as they provide the best models of community sharing and development. Fathers may put money on the table but mothers are the ones responsible for

making the hot, tasty meals that nourish the family. With increasing economic pressures in African society, women's responsibility for the home has increased, especially in poor communities.

- ▶ Most credit schemes work with groups as that is the most easily accessible and sometimes the only collateral available in poor communities. Here people apply for credit as a group and act as guarantors for the loans of all group members, ie if one defaults, the others will pay up. Women tend to excel over men in this area because they are generally better at working with other people.

Effects of microfinance

For most women microfinance results in improved lifestyles, exposure to modern facilities like banking systems and new tools and implements, acquisition of new techniques and skills, education, and improved access to and control of basic resources, but this is still inadequate. Most of the loans are too small, which tends to mean very small businesses with low profit margins. Out of the profits, substantial amounts are spent on servicing the loans taken out and the rest has to be spent on family upkeep. The latter very often takes precedence over the former: most women end up spending most of their income on their families.

This is not a problem in so far as it meets the goal of improved lifestyles for society at large, but when it gets to the point where women are having to sell off assets to repay loans spent on school fees, hospital bills, and community (or social) responsibilities such as providing material support during births and deaths or contributing towards the provision of community facilities and infrastructure like clinics and schools, then there is a problem. This is further exacerbated by the fact that more and more men are leaving provision of family needs to women as they become more economically responsible and

independent, thus undermining women's efforts at economic development.

Again, with the formation of groups to access credit for their projects comes increased social responsibility for most women. Proper group dynamics require that group members increasingly contribute towards the upkeep of other members of the group. When a member of the group has any special occasion to mark, for example a birth or a death, all members of the group are obliged to contribute towards the organization of the function, both materially and spiritually. This must be paid for from any source of funding available – even if it is the loan taken out for one's business.

The role of social investment in the community

Social investment in the community can help overcome some of these problems. This means investment for social development, which covers a wide range of facilities including basic social amenities like clean water, adequate health care and a host of other things needed for basic human survival. In most parts of Africa, communities are required to make a significant contribution to the provision of social amenities and infrastructure – even if they are extremely poor. It is therefore helpful when credit is available for such projects at reasonable cost – and available to communities rather than just to individuals or the government, as is often the case. This helps spread the responsibility for repayment, thus making such credit more manageable and bearable for the debtors.

If men contribute to providing credit for women's businesses and projects, then they become shareholders with a vested interest in their viability and progress; they will be more likely to appreciate and support them, less likely to want to undermine them. Secondly, having citizens contribute towards funding for projects creates the opportunity for men to be business partners with women – or even

with their wives. This is equality in the making at an even more personal level.

Women tend to take out small loans because they are not big risk-takers and are often scared of the interest rates on big loans. Being able to keep loans for business separate from funds available for social development will inevitably remove a lot of the fear associated with taking out loans. This will empower more women to take out bigger loans for larger and more meaningful investments that will yield more profits. These need not be spent on social development since there will be adequate funding provided for such needs.

How better could we empower women?

Dede Bruku works with ACTIONAID Ghana, coordinating the organization's work on HIV/AIDS and gender.

Microfunding institutions meet in Warsaw

The Annual Conference of Microfunding Institutions in CEE and the NIS organized by the Microfinance Centre (MFC) took place on 21–23 January 1998 in Warsaw, Poland. The Centre was started in September 1997 and officially registered as a foundation in December 1997.

Attended by 97 participants from 65 organizations, the conference focused on mutual learning, getting the Centre started, and mapping the needs and demands of the region. Thirty-one organizations declared their willingness to become members of the MFC. 'The level of interest in microfinance exceeded my expectations,' said Ela Dec, MFC Director. 'We hope that this event will have a significant impact on all countries in the region, and will help towards a greater development and understanding of the microfunding philosophy. This is a relatively new concept in this region.'

The next annual conference will take place in January 1999, in Sarajevo or Bratislava.

The MFC sponsors are C S Mott, USAID and CGAP (Consulting Group to Assist the Poorest), a programme created by the World Bank.

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Banská Bystrica

Eastern Europe's first community foundation

Beata Hirt **The Healthy City Foundation at Banská Bystrica in Slovakia is Eastern Europe's first community foundation. Although it was first set up both to raise money and to implement its own programmes, it was soon realized that it could contribute to the local community more effectively by supporting initiatives taken by citizens themselves.**

In 1991 the city of Banská Bystrica made a commitment to the World Health Organization's 'Healthy Cities' project, whose mission is to make the city the best possible place to live in.

In 1992 the Rotary Club of Banská Bystrica initiated the establishment of the Healthy City Foundation (HCC BB). Its goal was to raise money for, and implement, programmes and projects which help to improve the environment and quality of life in the city, for example health training for teachers, construction of playgrounds, and training for the members of 'Healthy Cities' projects.

Changing the method of operation

A year later a decision was made to change the method of operation. It was decided that the

A new model

Community trusts and foundations are a new kind of charitable trust working in a specific geographical area, which act as endowment builders, grant-makers and community leaders. Their broad purpose is to promote and support local voluntary and community activity through a programme of constructive grant-making. Donations from many sources – individuals, companies, other trusts and public funded bodies – are pooled in an endowment and generate income for grant-making. Wise governance comes from a board of trustees who know the local community well.

foundation itself would not prepare and execute projects but would instead support projects initiated by citizens themselves. This was partly inspired by the model of community foundations in the USA and partly a result of the experience of trying unsuccessfully to build a local playground.

The foundation prepared the whole project: we asked children to draw pictures of how they imagined an ideal playground, then we had psychologists to translate it for us and architects to design it, money and volunteers to start building it and also a large advertising campaign. We relied on local people coming and helping us finish it. We assumed they would help because they would see what a good thing we were doing for their children. But during two months' vacation only about five parents appeared and the foundation was unable to finish the project. We learnt a lesson that we cannot do things for people: it is more effective to support those who have ideas, energy, good will and time to do something for themselves.

There followed an intensive period of explanation, discussion and persuasion. Finally, in October 1994, the city government joined the foundation: it contributed money, two city councillors were to be on the Board and the city was to become a founder. The process of transformation into a 'community foundation' was successfully accomplished.

A new statute was approved according to which city councillors, local Rotarians, members of the Steering Committee of the Healthy Cities project and representatives elected by the foundation's members will have a constant representation on the Board of Trustees.

During the years 1994–97 the HCF BB has concentrated on two main strategic goals:

- ▶ to build a good image for the foundation, gaining the trust of local citizens;
- ▶ to create the endowment needed for the long-term development of the foundation.

Gaining trust

If the HCF BB was to be seen as a trustworthy organization, and to meet the needs of the city and its inhabitants, it was necessary to start a good grant-making programme. This included:

- ▶ a fair and open selection of projects;

- ▶ technical and advisory assistance for applicants in the period of project preparation, and help with successful implementation;
- ▶ transparency of all the foundation's activities;
- ▶ continual publicity in local and regional mass media.

NGOs or citizens' initiatives are eligible for grants from the HCF BB. The Board of Trustees awards grants taking into consideration:

- ▶ how the project improves the environment;
- ▶ how the project strengthens citizen participation;
- ▶ the applicant's capacity to realize the project.

In April 1995 the foundation office opened with two full-time staff members. There are now four full-time members of staff, one contractor and one Peace Corps volunteer.

Building an endowment

The second strategic goal for the end of 1997 was to reach an endowment level of 5 million Sk (US\$150,000). In the event the value of the foundation's endowment was 3.4 million Sk (\$100,000) at the year end.

Building an endowment is vital for the long-term stability and development of the foundation. It also allows the foundation to be flexible and to react to sudden and unexpected needs and problems within the community. The interest from the endowment will cover part of the grant-making programme.

In December 1995 a local fundraising campaign was begun. Mobilizing local funding and support for philanthropy are essential components of the philosophy of the foundation. The foundation creates a platform on which the work, ideas and capability of individuals and organizations can meet with the support and financial help of others.

Currently the foundation operates seven funds – Youth, Neighbourhood, Women, Environment, Rural, Challenge and General. The maximum amount for a grant has been raised from 8,000 Sk to 10,000 Sk (from \$240 to \$300). During the three-year period 1995–97 about 200 grants were made, with a total value of 1.6 million Sk (\$48,000).

Beata Hirt is Executive Director of the Healthy City Foundation at Banská Bystrica, Slovakia.

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A successful model

The foundation has attempted to implement a new model of solving problems in the city – a model that involves cooperation and mutual support within the community. The experience from three years of operation shows that this model works in our city and has a great potential for the future.

The foundation's greatest success is that it has demonstrated to local citizens that they have enough energy and capability to solve their problems by themselves.

It has established good contacts and strong relationships with other NGOs, local government and specialized institutions such as the Main City Architect Department. The task for the future is to strengthen and expand cooperation with local businesses and to help renew the tradition of philanthropy and charitable giving in our region. HCF BB plays a leadership role in the local community and provides assistance to new emerging community foundations in Slovakia and surrounding countries.

How it all began

Established in 1914 by Cleveland banker Frederick Harris Goff, the Cleveland Foundation is the oldest community foundation in the world and the second largest. Seeing the wisdom of separating the management of trust funds from decisions about how to use the income, Goff came up with the notion of a distribution committee composed of knowledgeable local residents to make grants that would meet ever-changing community needs.

The Foundation today has assets of more than \$1.3 billion. It was established by, and continues to grow through, gifts from thousands of citizens in amounts ranging from a few dollars to millions. Ordinarily, only the income generated by these gifts is used for grant-making.

In 1997 the Foundation gave more than \$42 million in grants and programme-related investments in the broad areas of education, health, social services, the arts, housing and neighbourhoods, and economic development. The grants are awarded to projects administered by non-profit or governmental agencies.

The Cleveland Foundation has served as the model for more than 600 community foundations across the nation and around the world. It is widely regarded as a local and national philanthropic leader.

For more information, please call the Foundation on +1 216 861 3810

What is a community foundation?

Gaynor Humphries

In the USA where community foundations began – the first was established in 1914 – the core idea was twofold: to create permanent local funds for grant-making and to offer services to donors, giving them the benefit of their own charitable trust but without the administrative burdens.

The community foundation model is effective because of its structure and underlying principles:

- ▶ It brings donors together, pooling their funds to create income for local grant-making, giving them as much flexibility as they want in choosing how and where their money is directed.
- ▶ It encourages philanthropy in its widest sense – not just generous giving in response to emergencies or appeals, but planned, strategic, constructive giving with a view to assisting the long-term needs of an area.
- ▶ Even relatively small-scale funding can prove effective locally. Community foundations aim to be user-friendly grant-makers, advising and helping applicants, guiding them to other funders, linking them to additional services and support. Their grants can support very small groups doing vital local work as well as contributing to bigger programmes of funding.

- ▶ Community foundations can provide a focus for many new initiatives – bringing local funders together, attracting new sources of support from outside the area, drawing in all sectors to create practical partnerships.
- ▶ Their boards and advisory committees have considerable knowledge of community needs and opportunities.

These factors explain why the model has captured the imagination of people in key roles in central and eastern Europe too. There is a strong need to encourage diverse involvement in public life and to assist in building lively, healthy communities and resourcing vital services. Community foundations are seen as vehicles to achieve this; if well structured, they do so with local accountability and transparency, which is essential to the new social economies.

Developing in eastern and central Europe

It has not been easy to develop community foundations in the UK. Only a handful feel truly secure and sustainable as yet – but these are a source of experience and inspiration to others. They are seeking to change attitudes to giving; from the start they must inspire confidence in donors through the people involved and the way they operate.

How much harder it must feel in central and eastern Europe, therefore, with new networks and models throughout the non-profit sector, new relationships

and structures being built, legal and fiscal disincentives for charitable giving in some countries, bars and blocks to investment. Elsewhere in this issue (pp 16–19), Olga Alexeeva vividly describes the obstacles faced in Russia. Despite this some strong and visionary models are developing.

A two-day meeting in January 1998 organized in Krakow, Poland, by Freedom House attracted about 80 people from 14 countries in the region, representing a mixture of local initiatives and organizations as well as support bodies. The meeting looked at the issues involved in exploring feasibility, starting and operating community foundations, and the support systems which they need. While some of the facilitation came from outside the region, a good proportion was drawn from local experience and expertise (notably the Healthy City Foundation in Banská Bystrica, Slovakia). Extensive consultation and development exercises in Poland and Slovakia were described; interested observers were drawn in from countries new to the model (Romania, Macedonia, Croatia); and potential donors expressed their interest in these developments. The power of community foundations for creativity and change fired everyone's imagination.

For information about ACTAF and individual community foundations in the UK, contact ACTAF at 4 Bloomsbury Square, London WC1A 2RL. Tel +44 171 831 0033 Fax +44 171 831 3881 E-mail actaf@patrol.i-way.co.uk

Community foundations in a country without a community

Olga Alexeeva



In late 1995 CAF Russia began work on an ambitious project: to help create a first community foundation in Russia. But it is hard to establish a community foundation in a country where there is no sense of a community. Two years on the prospects seemed almost hopeless. Despite the initial setbacks, a community foundation has now been established in Togliatti and steps have been taken towards establishing one in Moscow.

Olga Alexeeva:
'I thought I was
dreaming.'

The first place we tried was Togliatti, a young city on the Volga about 1,000 kilometres south-east of Moscow. We organized a series of training seminars for non-profit organizations there and made efforts to attract interest among the local business community. Togliatti City Hall seemed supportive from the very beginning. Almost two years later we brought a group of foreign funders to the city to finalize long-term negotiations and to establish a community foundation with the endowment capital donated by foreign foundations, the City Hall and local businesses. It ended up with a drunken evening when some important local people, glasses of vodka in their hands, expressed their views on the future of Russia and on foreign support for social change. There was no place for a democratic community foundation in their picture of things. We left depressed, feeling no confidence in our own country.

Progress in Togliatti

Three months later we received a call from Togliatti, from the small team of supporters who had helped us over the past two years:

'We have launched a promotional campaign among the

public about the community foundation concept. We have organized more negotiations with business representatives. Local companies have promised to donate about \$50,000 for the first round of grants and then we will think about an endowment. But first we must prove to the local community the value of community foundations. And, most important of all, the first board meeting is scheduled for mid-January 1998!'

I thought I was dreaming.

The board meeting on 15 January was attended by representatives from banks, other local companies, local government, the project team and CAF. The community foundation was officially launched, and documents signed, on 19 March.

Who controls the new organization?

Ultimate control of the organization will rest with the Founders' Council – the founders consist of four banks, a car manufacturing firm and CAF. The board, largely advisory, will include representatives of the founders plus the mayor and other local government officials and a non-profit sector representative. Day-to-day decision-making and grant-making will lie with the Grants Committee,

which will include representatives of local government, local non-profits, community groups and the general public as well as the founders.

The missing players

For the first two years at Togliatti we had tried to keep the interest of all the key players (local government, local businesses and foreign foundations), to make them agree on the concept and give money for the foundation, and we had tried to avoid any compromise with the foundation's basic principles in this hard process. But we had forgotten about two other key players: the public and the local non-profit sector. The whole process had not been as public as it should have been. Most people in Togliatti did not realize that we were struggling to help them create their community foundation. We assumed that there was a community in Togliatti but we did not know that community. We thought that we knew the local non-profit organizations and failed to notice the small community groups. We did not realize what an impact on the whole process these 'missing' players could make.

After the collapse of negotiations at the drunken party, the local project team realized that they could not rely on the 'big fish'; they decided to ask for public support. This is what we should have done from the beginning.

Bringing in the public

The public campaign started by the local team attracted great attention from local people. It made full use of the local media. Items on community foundations appeared in the local press and on TV; anyone who was interested was invited to come along to the project team office, ask questions and find out more; anyone interested in running a community project was invited to contribute their thoughts.

The campaign made the whole process of trying to set up a community foundation open and publicly

controlled, which helped to stall any possible efforts of local businesses or local government to bring the foundation under their personal control. The public discussion revealed how many small community groups already existed in Togliatti. And it proved to local businesses that giving to the foundation would be a good thing not just because it would please local government officials but because it would be a good way for businesses to become a real part of the local community.

Starting small-scale, and local

Another important mistake we had made was wanting to put a large amount of money into the foundation from the very beginning. We felt that this would ensure that it was taken seriously and that a community foundation was not just another small, poor Russian fund. But we did not take into account that the main difference between our model and existing Russian foundations lay not in the

Mott – committed supporter of community foundations

The Mott Foundation's support for the community foundation movement was initiated in 1979 when it awarded challenge grants totalling \$1.4 million to seven struggling community foundations. This was followed in 1982 when Mott joined forces with the Council on Foundations by supporting, with a \$1 million grant, a technical assistance programme.

In 1984 Mott launched its Neighborhoods Small Grants Program, which supported the efforts of community foundations to strengthen their grant-making skills by funding programmes and projects in low-income neighbourhoods. More than \$5.7 million was awarded during the two phases of this programme.

Mott has demonstrated its ongoing commitment to community foundations through its support for technical assistance to emerging community foundations in Eastern Europe, South Africa and the United Kingdom.

'The Mott Foundation's interests in community foundations are in line with its overall interest in working with communities and in community capacity building,' according to Elan Garonzik, Mott Program Officer working with its Civil Society Program.

*For further information
contact the Mott
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size of the capital but in the principles on which the capital was to be obtained and managed.

The second time round it was generally agreed that there should be no endowment initially, as those running the foundation would not have the experience to manage a large sum of money. After the first grant round local businesses and local government would be encouraged to provide endowment funds, and only then would foreign funders be asked to contribute. Experience suggests that potential local funders will not come forward if they feel that foreigners will provide instead. A decision was made that local funders should supply at least 50 per cent of the endowment.

The difficulties of setting up a community foundation in Russia

The idea of starting a community foundation in Russia seems idealistic in the extreme. Russia does not have a 'community' in the Western sense of the word. People living together in one place (a street or a city or even a country) do not consider this place as their own, do not have a tradition of caring about their surroundings. Even the word 'community' is impossible to translate into the Russian language. The Russian non-profit sector can be characterized by its lack of links with the wider population and by its poor management. Russian philanthropy is based largely on business donations which are unplanned and unstructured and in many cases dependent on local government opinion. If the mayor or local governor considers a project worthy of support, local companies will come up with the money. It is a safe and 'politically correct' way of doing good – called by the public 'a charitable racket'.

The community foundation concept does not fit within this environment. It is a model which is based on distribution of donations according to democratic principles, community cooperation and traditions of legal and above-board management of charitable money. But precisely for those reasons it is the model that holds out most promise of effecting real change in the current poor practices of the Russian non-profit sector and in Russian philanthropy.

Experience suggests that potential local funders will not come forward if they feel that foreigners will provide instead.

Moscow foundations surveyed

Since a Moscow community foundation was proposed, several companies have questioned the need for 'yet another foundation'. So CAF Russia carried out a telephone survey of 35 Moscow foundations. The findings confirmed the need for a local foundation:

- ▶ Of the 35 foundations surveyed, only 18 were actually operating on a regular basis.
- ▶ Not one had any form of endowment.
- ▶ Not one had any funds to distribute as grants.
- ▶ Most were ordinary non-profit organizations providing services; some were self-help groups.

Russian democracy lacks practice on the local level. Endless seminars and conferences, and study tours of local officials to Western countries, cannot establish democratic traditions in everyday Russian life. Only institutions whose existence and operation are based on democratic principles can create a tradition of democracy and prove its value. The Russian non-profit sector itself lacks any system of legal financial institutions which will not only concentrate and increase local resources but also serve as intermediaries between non-profits and donors. Existing indigenous foundations do not usually have any endowment; rather than distributing money on a competitive basis they fundraise for the programmes which they implement themselves.

Russian charitable organizations lack public support. They are like strangers: nobody in the community knows what they are actually doing. When they do become publicly known (usually through a scandal stirred up by the press), this tends to create only negative impressions.

A universal panacea?

Community foundations can begin to address all these issues. They can bring democratic traditions because they are based on wide community representation on the Board and a democratic system of decision-making; they create procedures for the control and distribution of money that are open to public scrutiny. They have endowment funds which allow them to serve as grant-making foundations and as intermediary bodies between local donors and charities.

It would certainly be a great mistake to see community foundations as a universal panacea. But they can play a really valuable role in changing commu-

nities in places like Russia or Eastern European countries – where small, independent voluntary groups cannot rely on wide individual support because individual giving and volunteering are not developed; where charities cannot develop cost-effective paid services because of widespread poverty and an inappropriate tax system; where government support is not the best source of money because government has not yet learned how to support without controlling.

The lessons of Togliatti

The lessons we have learned in Togliatti might seem obvious to an outsider, but to us – new to the field as we were – they were like landmines, although hopefully they could not stop our move forward. We did not see that the local businesses in Togliatti liked the idea of a community foundation just because the local government liked it. We were supporting a ‘charitable racket’ system without any intention of doing so. We did not want to see that the local government wanted to stick the community foundation in its pocket – a useful addition to the local budget – and control the distribution of money. Indeed, local government officials did not even see that there could be another way of viewing it. Even people from our project team, who seemed to know much more about the concept than the City Hall, assumed that decisions about grants would be made by the local government.

We were supporting a ‘charitable racket’ system without any intention of doing so.

Olga Alexeeva is
Co-Director of CAF
Russia.

Moscow – the next attempt

In summer 1997 we started the process of trying to create a Moscow community foundation, and we are trying to keep in mind the lessons of Togliatti. Inevitably we began again from the top and began by talking to local government officials and the local business community. But as we became involved in the process, we understood that we were again in danger of missing an important point – that we were creating a *community* foundation.

The meeting in July 1997 involved mostly representatives from the banks, but since then a much broader-based working group has been formed. Meetings have been held with local companies, local non-profit organizations, community groups, local government officials. A Most Bank staff member

visited the UK for a week in October to visit UK community foundations and see how they operate. We are working slowly, trying to prepare the ground, and at this stage we are keeping the process as local as possible.

The Mott Foundation and other funders have been approached for support for this development work. One strand of this is to run seminars on corporate philanthropy, with the aim of introducing companies to a new, more embracing vision of social responsibility. A study visit by the working group to New York Community Foundation is also planned. But, as in Togliatti, substantial endowment funds will be sought only once the foundation has acquired some experience of grant-making. The first round of grants is planned for December 1998.

The future?

I started this article by saying that it is hard to establish a community foundation in a country where there is no sense of a community. I can say now, after over two years of experience, that there is a community in Russia but it does not call itself a community and it does not understand itself yet. The process of creating community foundations – in Togliatti, in Moscow, in St Petersburg (where we hope to start this year) – will help local communities to understand who they are and what they can achieve. This will be possible only if the process is open to the public and does not rely totally on goodwill and support from the big fish.

Windfall for UK community foundations

Community foundations around Britain are to receive their own ‘windfall’ following the demutualization of the Bristol and West Building Society last year. An appeal sent by the Greater Bristol Foundation to society members with news of their windfall payments has raised around £200,000. The money is being held as a capital fund, the income from which will be distributed among community foundations every year, starting this summer. The money will be allocated within the regions in which it was raised, with over 50 per cent going to foundations in the south-west of England.

Constructing civil society

The challenges facing the Japanese foundation sector

Chimaki Kurokawa

Until now Japanese foundations have tended to support mainly research and related activities – partly because of legal constraints and partly for historical-cultural reasons. But, with the bubble of economic success burst, Japan faces great new challenges. Citizens' initiatives could play a major role in meeting them. Are Japanese foundations ready to play their part in encouraging the much-needed growth of civil society?

Little is known about Japanese foundations outside Japan. This isolation of the Japanese foundation sector from the global civil society community is related not only to the lack of PR efforts by foundations themselves but also to the history and development of Japanese society as a whole.

Japan has attained a high level of economic growth and has become the number two economic superpower of this century. Accordingly, outsiders take it for granted that Japanese society is now structured similarly to that of Western countries. The fact is that it is not.

In most Asian societies, it seems that economic growth has been the major goal, the single area of consensus around which people have been united. This 'economy first' policy has often been implemented by authoritarian regimes where fundamental social and political issues have been neglected or ignored. Even their economic strategies per se have not paid due attention to the economic fundamentals, and astute global fund managers have not overlooked the distortions inherent in these economies.

The problems of Japanese society may look slightly different on the surface, but in essence they may have similar roots to those of other Asian societies. Japan is a democratic country but its central government and bureaucracy are so strong that people are very much dependent on the government, thus leaving little room for non-profit organizations (NPOs) to take the initiative in dealing with contemporary issues such as the global environment, developing a system of care to meet the needs of a rapidly ageing society, the human rights of foreigners, gender, HIV and AIDS, and checking corruption on the part of national and local governments.

Roots of Japanese dependence on government

How has this dependence on government come about? Part of the problem is that Japan has

achieved a kind of modernization (economic and military competitiveness against the West) without changing its core systems. Under the Tokugawa regime from 1600 to 1868, Japanese society remained strictly feudal, with people accustomed to follow their feudal lords and the bureaucrats. To a great extent, this tradition was inherited by the Emperor's government in the Meiji Restoration in 1868.

After the Second World War, Japan adopted a completely new constitution; a democracy was established and military forces abolished. It was not long, however, before the Cold War set in and the Korean War started. On top of this dramatic change in political circumstances, great energy was directed towards industrial reconstruction and economic growth; businesses absorbed almost all the energy of their employees, leaving little time for civil activities. These factors have contributed to creating an apathy to politics in people's minds. Urbanization (with people deserting their home towns and their parents, and cutting themselves off from their own identities) was another related factor. People tended not to think too much about their duties to their community or society.

Around 1990 Japanese economic success reached its peak and then the 'bubble' burst. Other East and South-East Asian economies have followed suit; the bubble burst in one after another and their economies were seriously damaged. The bankruptcy of these economic-growth-oriented social systems coincided with the globalization of the finance sector. The banks now have to comply with global (BIS) standards based on stringent disclosure requirements – disclosure being a most foreign practice in Japanese and Asian cultures.

Today, we are constantly astounded at the inefficiency of our political, financial and social systems. It is obvious that we will have to develop alternative systems in order to meet the mounting challenges, but we do not know how to utilize the strengths of NPOs in dealing with them.

Outsiders take it for granted that Japanese society is now structured similarly to that of Western countries. The fact is that it is not.

See p38 for more about the Japanese NPO Bill.

Constraints on Japanese foundations

Owing to the factors briefly described above, philanthropy is not yet widely accepted in Japan. People may be awakening to the potential role of operating NPOs and volunteers but not yet to that of foundations.

Most of the major foundations are either governmental or corporate. In order to obtain the status of chartered foundation, an organization has to be accepted by a government ministry or a prefecture governor. This has significant implications. The fact that a foundation's mission and activities have to stay within one particular agency's territory can greatly limit the scope of Japanese foundations' activities. In particular, as all the agencies except the Ministry of Foreign Affairs deal mainly with domestic matters, foundations' programmes tend to have to stay domestic. Foundations whose activities are predominantly international must be registered with the Ministry of Foreign Affairs.

The system of tax exemptions for donations to foundations is very stringent and discouraging, reflecting the belief of bureaucrats that people cannot be trusted. But recent incidents have revealed that they are themselves untrustworthy, inefficient and inward-looking. And we Japanese are regretting that our past indifference and apathy to politics are costing us so dearly now.

A new Non-Profit Organizations Bill was enacted in March 1998. It should help fragile Japanese NPOs, and it is expected that it will eventually open up a new horizon for foundations as a vital funding channel for NPOs.

Facts and figures

The only reliable source of information on Japanese grant-making foundations is the Japan Foundation Center's *Directory of Grant-Making Foundations in Japan*, published every two years. The following figures are all taken from the 1996 *Directory*.

Japanese foundations are small compared to their American and European counterparts, as is shown by this comparison between the top 20 Japanese foundations and the top 20 US foundations. (The largest assets group and the largest grant-spending group are picked up separately.)

Top 20 foundations by assets and annual grant spending (Japan and USA)*

	Japan	USA
Assets (in aggregate)	\$2,808m	\$49,335m
Annual grant spending (in aggregate)	\$189m	\$2,283m

* \$1 = 130 yen.

Size of grants of the identified 494 foundations

Size of grant programme	Number of foundations	%
Less than 25m yen (\$192,000)	222	45
25–50m yen (\$192,000–385,000)	119	24
50–150m yen (\$385,000–1,150,000)	105	21
150–500m yen (\$1,150,000–3,846,000)	35	7
500m yen (\$3,846,000) or more	13	3
Total	494	100

Number of grant programmes by type of programme

Research grant programmes	430
Conferences and seminars	174
Travel	262 for non-Japanese 106
Awards	128
Scholarships	339 for non-Japanese 142
Other	469
Total	1,902

Notes
 1 If it is taken into account that Conferences and seminars, Awards and Travel are mainly for scholars and researchers, grants for research-related activities exceed 52 per cent.
 2 There are very few civil society programmes. A lack of awareness about social problems on the part of foundations may have something to do with this.

The next few years

At the moment Japan is facing challenges on all fronts. It has been in recession since 1991 and things are getting worse. It is felt that the Japanese model will not work any more. Restructuring of the collapsing finance sector is not the only problem; huge budget deficits are being piled up in the face of the challenges posed by a rapidly ageing population. The government has been focusing on reforms in four major areas: administration (downsizing, transfer of power to local governments and deregulation), budget structure, financial system and education system.

Japanese society has to go through fundamental and drastic changes. In this context the civil society sector has to show that it can offer alternatives based on people's initiatives and engagement. There are signs that the public has started to appreciate the work of volunteers and to understand the contribution to society that they can make. But we need to get the message across that we need more structured and professional groups and that they need constant support.

The government bureaucrats are clever, and they have already created a number of quasi-NPOs to tackle environmental issues, cultural cooperation, provision of care and so on. They are looking for every opportunity to expand their empire.

At the moment, the Japanese foundation sector is small and marginal. If we are to see a growth of civil society, with citizens themselves taking more initiatives, the foundation sector should be developed to create an alternative channel of funds for NPOs.

The major obstacle to building such a channel of funding for NPOs is dominance of the government and business sectors. We have to increase advocacy to acquire more recognition by the public. Also, very few foundations support civil society development programmes, so existing foundations should be encouraged to introduce such programmes.

It is no easy task to draw up a blueprint for constructing civil society in Japan. The first step is to raise public awareness of NPOs. Outside influences will be important here, and CIVICUS is one organization that should have a role to play in shaking up Japanese society.

Chimaki Kurokawa is Managing Director of the Toyota Foundation. He moved from business into the philanthropy sector four years ago.

THE TOYOTA FOUNDATION

In 1974 the Toyota Foundation was established with a view to returning profit to society in a meaningful way.

There had been an upsurge of anti-big-business sentiment around 1970–75, both inside and outside Japan, so it was an opportune moment for Toyota to look around and consider new ways of improving its image in society.

From its inception, the corporation had been sensitive to public support because it was established prematurely, in industrial terms, in order to challenge the global giants – GM, Ford, VW, BMC and so on. A couple of other corporate foundations were born around that time, so it was a sort of awakening period for corporate citizenship in Japan.

Its endowment from the Toyota Motor Company and the Toyota Motor Sales Company (later merged into the Toyota Motor Corporation) reached 1 million yen soon after its inauguration. The Foundation has its own Board of Directors and Board of Trustees. While keeping communication with its major donor, TMC, it is operated completely autonomously. The Foundation has three major programmes.

The research grant programme

The Foundation adopted a rather unique policy from its inception. Although its main programme focus was research, like other Japanese corporate foundations, the priorities of the programme were humanities and social sciences rather than the natural sciences, which are still the

major territory for research grant programmes in Japan. The Foundation also encouraged interdisciplinary researches such as global environment, minority cultures, regional studies and so on. Currently, the main themes are:

- ▶ Diverse Cultures
- ▶ Civil Society
- ▶ Global Environment
- ▶ Science and Technology

The annual budget is around \$1.54 million.

The South-East Asia programme

It was clearly stated in its mission statement that the Foundation should promote programmes for the developing countries. Accordingly, the South-East Asia programme was developed in its early days to help Asian scholars' researches in such areas as history, archives, religion, languages, ethnicity and traditional medical practices. This programme has given birth to a couple of related sub-programmes:

- ▶ the translation and publication support programme (mainly for novels) called 'Know Our Neighbours', with more than 200 items in its library;
- ▶ the South-East Asia Studies

Regional Exchange Programme (SEASREP), which helps scholars in the region to study migrating cultures. The programme is significant because the comparative studies across borders are breaking through the barriers created in the colonial age and, ironically, in the nationalistic independence days after the Second World War;

- ▶ special programmes to help young Indonesian humanists and sociologists pursue their academic careers.

The annual budget is around \$1 million.

The civil society programmes

These programmes are designed to encourage citizens' groups to address the issues around them – environmental protection, welfare of the handicapped and aged, school drop-outs, violence against women, discrimination against ethnic minorities, and so on. They try to encourage people's initiatives in a quiet society – indeed, it is to be regretted that Japanese foundations do not support many such programmes.

There are three components:

- ▶ the Grant Programme for Citizen Groups' Activities (one-year projects);
- ▶ the Grant Programme for Citizen Groups' Activities (three-year projects);
- ▶ the Citizen Groups' Research Contest.

The annual budget is about \$300,000.

For further information, contact the Toyota Foundation on:
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Corporate community involvement: an engine of R&D?

Laurie Regelbrugge

While the success or failure of R&D activities is generally judged over the long term, companies often expect CCI programmes to deliver ‘bottom-line’ outcomes in unrealistically short periods of time. What would CCI look like if we expected it to contribute to a company’s long-term development in the same way as R&D?

Corporate success is based on two things working concurrently: good ideas and effective commercial application (the ability to make use of the ideas). It was once sufficient to be good at one or the other, but as competition in every sector has intensified, so has the need for companies to link innovation and application strategically and to integrate their further development so as to achieve a full product or service life cycle from conception to delivery. The big question for companies is where and how to get the ideas and application processes that will give them competitive advantage, market strength, and a continuous flow of products and services – *everywhere*.

‘We need ideas from everywhere’

Companies have to develop innovation and application prowess both within their halls and externally, beyond their structures and direct operations. Thomas Edison’s disciplined approach to innovation was twofold: experiment based on what you already know – predictable patterns – and experiment further bringing in elements of the unknown. This ‘we need ideas from everywhere’ attitude captures the valuable role that corporate community involvement (CCI) can play in long-term business development and success.

CCI involvement – or strategic social investment, as it is sometimes called – has great potential as an engine of R&D, and is relevant to each stage of business development. Achieving this potential requires a company to ‘re-engineer’ its approach to the goals, substance and practice of CCI and social investment. How different would a company’s CCI look if we expected it to contribute in the same kinds of ways that commercial-product R&D contributes to overall business success and development?

Near the market vs long-term market

Since the early development of formal corporate philanthropy, the activity has primarily been considered charity – charity made possible by profitability. This placed the activity at the end of the commercial process, a gesture of thanks and ‘giving back’ to communities for providing infrastructure and other inputs for business success. Companies typically held few expectations for this ‘charity’ beyond hoping that it would enhance cor-

porate image and make friends of influential people. Such limited objectives were frequently met.

More recently, companies have sought to align their philanthropy and broader CCI directly with their business, particularly through links with products and services. This 'near-the-market' approach serves advertising and marketing efforts, and often helps serve employment needs too. Because of this more direct relationship to the business, companies have increasingly sought ways to measure the results of CCI, wanting quantitative assurance that there are bottom-line benefits from the activity. While this approach has forced companies to internalize CCI activity far more than is required by the end-of-the-pipeline charity approach, it often challenges CCI to deliver bottom-line outcomes in unrealistically short periods of time.

Near-the-market CCI activities deliver more results than charity alone, and will remain important to companies as competition increases because of their obvious value in generating name recognition, market development, consumer preference and corporate image benefits. Yet even these activities fall short of the full potential CCI has for enhancing business results and contributing positively to the communities in which business operates.

Another approach is to position CCI as strategic R&D, implemented in varying ways throughout a company's structure and operations, but always with an expectation that it will contribute to company learning, product development and long-term competitiveness. A 1990 *California Business* article by Ann Kyle stated, 'Many believe that social investment is better perceived in the way that a company views long-term investments in R&D, advertising, customer relations and employee loyalty.'

CCI as R&D?

Companies expect a great deal from R&D:

- ▶ experimentation and risk-taking;
- ▶ learning and knowledge development;
- ▶ high performance in terms of outcomes with

commercial application and a percentage of 'failures' that contribute to learning none the less;

- ▶ outcomes with varying gestation periods, many of which are long-term;
- ▶ internal channels for funnelling its 'products' and outcomes so they can be applied;
- ▶ external relationships and activities that help monitor and check the 'field's' progress on related or new issues.

The time accorded standard R&D activities is more consistent with the time needed to achieve and understand the outcomes of many kinds of CCI.

R&D requires a sustained financial commitment. Even more importantly, it requires an ethic, or corporate culture, that places great value on the idea-generating activity and provides an environment conducive to innovation.

As successful as R&D has been, it is under pressure in today's highly competitive environment to deliver results almost instantaneously. An executive from a division of DuPont recently stated that 20 per cent of that division's worldwide revenues came from products that had entered the market within the last three years. This illustrates the pressure on R&D to deliver results quickly. None the less, the time accorded standard R&D activities is more consistent with the time needed to achieve and understand the outcomes of many kinds of CCI.

So, what might an R&D-type CCI look like? There are examples from companies that are taking, or have taken, more of an R&D approach. In addition, there are cases where one clearly sees the opportunity for CCI activities to deliver to strategic business development.

Examples of CCI-type R&D

The Whirlpool Corporation

Headquartered in Benton Harbor, Michigan, Whirlpool is a leading manufacturer and marketer of major home appliances. The company manufactures in 13 countries and markets products in 140 countries. In 1994 the Whirlpool Foundation launched a research and programme effort to gain a deeper understanding of contemporary family issues. The aim was to provide the foundation

Near-the-market CCI activities fall short of the full potential CCI has for enhancing business results and contributing positively to the communities in which business operates.

with direct information to guide a progressive grant-making strategy in the US and internationally, but the effort has also identified issues relevant to women, who happen to comprise the majority of Whirlpool's workforce and product users. The information generated from the research and direct involvement in projects addressing women's issues has given the company valuable tools and partners that have direct business application. The activities have also provided important data and support for women's and family issues in the eight countries involved.

ARCO

A multinational oil company and one of the largest companies in California, ARCO drastically altered its philanthropic giving in the 1980s, positioning it to provide information, experience, partners and employees relevant to the company's long-term interests. ARCO's education contributions prior to 1980 were directed primarily to private research universities. By 1990 60 per cent of the education budget was going to advancing pre-collegiate education reform, and 75 per cent of ARCO's overall CCI budget was geared towards under-represented minority populations. These important shifts were based on the ARCO Foundation's demographic data analysis relating to its future employment and customer base, leadership within the company, and programme experience.

Hitachi

Hitachi Ltd endowed a foundation in the US as part of a three-pronged approach to its business development in North America. The Hitachi Foundation has invested in activities advancing multicultural education, asset-based community development, youth community service, business-community partnerships, and corporate citizenship more generally. A project with the World Resources Institute yielded a valuable accounting framework that challenges companies to identify the full range of their environmental costs on the assumption that business decisions based on full knowledge of environmental costs will yield more environmentally friendly products and processes. The exercise prompted several case-study firms to change production processes and products which had high true costs because of environmental implications that had been invisible

or less visible in the standard accounting systems. Since the foundation is not linked to Hitachi's corporate R&D, the channelling of results like this becomes more challenging. The foundation 'off-shored' the study in a way that results could be picked up by Hitachi, other companies and other environmentally oriented organizations.

Aracruz

Aracruz Cellulose, SA, of Brazil, accounts for about 25 per cent of the world's bleached cellulose pulp; it exports over 90 per cent of its production to over 20 countries. The company is an active member of the Business Council for Sustainable Development. Many of its CCI activities are focused on reforestation and developing less environmentally harmful production techniques. Another programme supports the local community through providing seedlings and technical support to help small local farmers who in turn sell their products back to the company.

Begging for an R&D approach?

It is also worth outlining examples of opportunities that seem to beg for an R&D approach. As the telecommunications giants in the US began to ex-

CCI activities and employee recruitment within the diverse Latino populations in New York City alone would have provided important insights and marketing data for these US telecommunications companies.

pand globally, they sought to market products like calling cards in new countries and cultures. Prior CCI activities with related cultural groups in the US could have been valuable in identifying the messages, contexts and languages that would have tailored products appropriately for foreign markets. For example, merely translating US advertising messages into Spanish did not prove effective in selling telephone cards and related services in Latin American countries. Instead, it was important to develop messages and products that fitted the language and telephone use patterns in the many varied countries of Latin America. CCI activities and employee recruitment within the diverse Latino populations in New York City alone would have provided important insights and marketing data for these US telecommunications companies, and would probably have

provided partners and employees well equipped to help develop the Latin American business.

Kodak

The Kodak company dominated the film and processing market in South Africa prior to anti-apartheid economic sanctions. Since the company observed the boycott and left South Africa for a number of years, its main competitor Fuji Film became the dominant film supplier and processor. Upon returning to South Africa, Kodak faced tremendous challenges trying to earn back precious market share. A breakthrough came when it began to take its business out to the townships. Neither Kodak nor its competitors had ever devoted much attention to the black population and its market potential. Suddenly, this population became Kodak's opportunity. The company soon found that its film and processing chemistry, in its treatment of colour and lighting combinations, was designed for white people. To pursue this marketing opportunity, the company developed film and processing that was tailored to black complexions. It is interesting to ponder why this innovation – indeed revelation – was so long in coming to any of the major film companies. R&D-oriented CCI might have made a difference, in that it can help companies identify innovations and develop long-term markets.

Implementing R&D-oriented CCI

How do companies implement R&D-oriented CCI? Many elements are critical:

- ▶ predictable, sustained support and leadership;
- ▶ established structures and policies for undertaking activity, analysing results and channelling results appropriately throughout the business;
- ▶ a philosophy and environment that encourage and reward risk-taking, long-term strategic thinking, learning, and making connections;
- ▶ tools for evaluating short-, medium- and long-term potential and results;
- ▶ employment practices that recruit and retain a truly diverse workforce. This will bring different perspectives, different ways of asking the questions and applying the results.

The time factor

R&D-oriented CCI is by its very nature designed to provide investment returns at some time in the

future. Trying to measure its results prematurely undermines the whole exercise. If at least a portion of a company's full investment in CCI is considered 'patient capital' or venture capital, then the expectations for 'bottom-line' results can likewise be framed with a longer-term perspective and with

Innovation often comes from asking the same old question in a new way.

the objective of gaining market knowledge. The returns are amortized over a longer period. An investment of \$5,000 per student in a high-school student entrepreneurship programme, for example, might be fully repaid and yield substantial returns in 6 to 15 years when the young people complete school, enter the job market or create their own businesses, become taxpayers, and even hire employees.

The 'people' factors

'Prototype' employee recruiting is not likely to yield the highest-performing CCI team. Diversity of background, experience, training and perspective ensures that questions, issues and results are considered in many ways. Innovation often comes from asking the same old question in a new way. For example, psychological research into people's resilience was greatly advanced when researchers started asking why some people survived a set of circumstances rather than the more traditional focus on why some did not survive.

The other important 'people' element is leadership. At many levels there must be people who can anticipate, based on their knowledge of the present and past, and who can act and motivate others to act accordingly. Effective R&D is largely the ability to anticipate, innovate and apply.

Adopting an R&D attitude for CCI and strategic social investment enhances the company's learning tools and opportunities. Direct involvement with communities that may not be today's customers, but that are likely to be tomorrow's customers and workforce, is probably the most effective way for companies to prepare for what promises to be an even more intensely competitive twenty-first century.

Laurie Regelbrugge is Vice President of the Hitachi Foundation.

On 17 December 1997 Grand Met and Guinness merged to form Diageo plc, one of the world's leading consumer goods companies. But what effect do such mergers have on the companies' community affairs programmes? **Caroline Hartnell** talked to **Geoffrey Bush**, Chairman of the newly formed Diageo Foundation and Group Director of Corporate Citizenship.



Geoffrey Bush **Interview**

What do you personally most hope to achieve in your new role as head of the Diageo Foundation?

What we're currently developing is strategy and vision for our whole interaction with the community, and the role of

the Diageo Foundation will be important in terms of supporting our community involvement. It's important to me that it integrates with our business as far as it possibly can.

Are the Foundation's giving policies decided yet?

We've yet to formally announce policies. What we have already decided in looking at the best of Grand Met and Guinness programmes is that we'll be supporting the community in five distinct categories (see side panel), within a consistent and integrated approach under the overall theme of 'Freedom to Succeed'. We'll be trying to give priority within those to excluded and disadvantaged people who can help themselves and be transformed. We'll be looking principally towards community groups and partnerships, not individuals, areas where we operate or connect or touch communities, and where our involvement can make a difference.

In what ways, if any, do the new Diageo priorities depart from those of Grand Met and Guinness?

We hope that they bring out the best of both. We have built our future strategy around the core values of Diageo and tried to see how we can do something that is innovative and exciting as well as building on the heritage of the two companies' work.

You talk about the values of Diageo. Can you expand on that?

Corporate citizenship runs through all Diageo's values. We have committed 1 per cent of worldwide trading profit (less interest costs) to community involvement. The core values are Freedom to Succeed, Being the Best, Proud of What We Do and Passionate about Consumers.

The Diageo Foundation has identified five key areas for community support within an overall theme of 'Freedom to Succeed'

- ▶ Environment, principally through its international 'Water for Life' programme.
- ▶ Learning, with an emphasis on disadvantaged young people.
- ▶ Art and culture, with an emphasis on greater access to community arts.
- ▶ Employability and local regeneration.
- ▶ Employee involvement and matched giving.

You talk about bringing the best out of both the previous programmes, but what about the ‘less than best’? Will there be some former beneficiaries that will lose out under the new arrangements?

We have a finite amount of resources, so we can’t possibly help everybody. Where we aren’t able to carry on supporting certain community groups, we will discuss this with them and give them good advance notice.

And are there particular groups that this applies to, particular types of people?

Not particularly – it’s just that we’ll be trying to focus more on the five categories I’ve outlined and we will try to geographically target our resources more to where our businesses are.

Do you feel that one or other side of the merger emerged as dominant? Or does Diageo have a new identity that’s completely distinct from that of Grand Met and Guinness?

We hope so. Certainly, neither side is dominant. We have looked with fresh eyes at Diageo’s values and we hope our programmes will have a fresh and new feel to them that is quite distinct from either the Grand Met or the Guinness programmes. But within those will be recognizable elements of successful programmes such as the Guinness ‘Water for Life’ programme, which we think will fit very well within our overall theme of Freedom to Succeed.

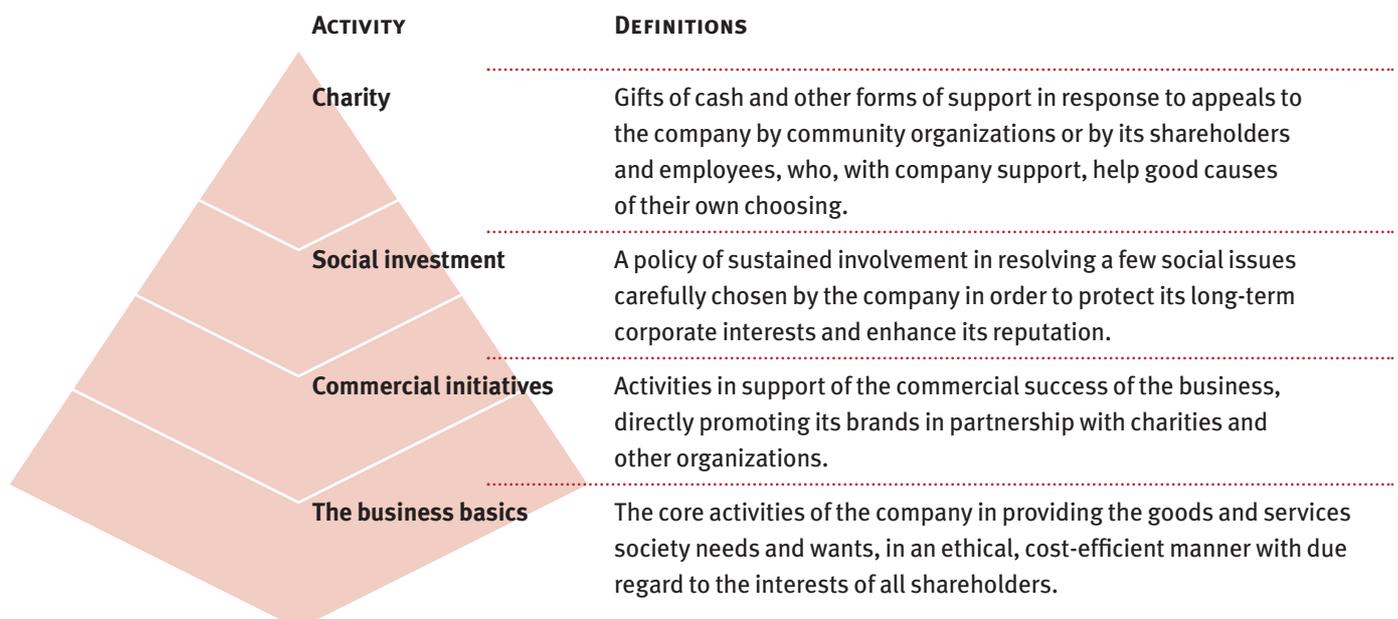
How much does the overall amount to be given away in the Diageo Foundation ‘pot’ compare with the amount formerly given away by Guinness and Grand Met?

We’ve announced that on a global basis the company will give 1 per cent of its profit (worldwide trading profit – less interest), which is approximately £20 million, and that’s very comparable to the total sum that Guinness and Grand Met gave before. That will go partly through the Diageo Foundation but we also have other group foundations funded from our businesses such as the Pillsbury Foundation in the US, the Burger King/McLamore Foundation which is being launched next month in the US, the Smirnoff Foundation in Russia, and the Cinzano Foundation. So there are a number of routes it will go through – the Diageo Foundation will be trying to give international leadership.

Are all four levels of the London Benchmarking Group pyramid included in your 1 per cent?

It includes the social investment levels, in other words all the charitable giving, employee matching, fundraising, payroll giving, all responses to requests for donations that come into the company, but also longer-term social investments through working with community partners to tackle underlying social issues such as homelessness, unemployment and other long-term issues we feel we can contribute to.

London Benchmarking Group model of the company in society



So it doesn't include the bottom two levels of the pyramid?

No, in addition to the planned level of social investment and donations, we have other funds that go to the community – for example, through cause-related marketing, which may be brand-led but there's a considerable spin-off to the community. That would be over and above the 1 per cent.

Do you know how the proportion given away abroad compares with the proportion of group profits generated overseas?

We have reported that in the past and we will regularly report it for Diageo. As far as we can, we try to aim for our community giving to reflect the level of the business and employees in different countries around the world. Inevitably, it will vary in some countries because of history or because of particular issues where we can do more to help.

Are there particular regions you need to give more attention to proportionately?

Yes, we do feel that our community involvement is underrepresented in some regions. For example, we are very strong community players in the UK and the US but not as strong in some of the emerging markets where we operate, so we'll be looking to try to pump more resources into some of those countries.

Is it your aim to have parity between the proportion of profits generated in a country and the proportion of your giving that goes into that country?

Not necessarily profits, because clearly our business is at different stages of development in different countries, but I think the giving should be roughly in proportion to the scale of our business operations and our employees.

Do you think carrying out a community programme though a trust or foundation means that you're less tied to the bottom line of corporate objectives than you would be otherwise?

I think having a foundation gives an element of objectivity. Different foundations vary between being closely aligned to the company objectives or very independent. Our foundation's purpose is to work with our businesses to help where we can, so we will be reasonably closely aligned to the business. But having a separate foundation means that the trustees can look objectively at

applications and possible different options for funding. And our contribution goes beyond giving money. The foundation is a mechanism for facilitating partnerships.

When we looked at whether we should establish a foundation or not, we looked at the two companies – one which had a foundation, one which didn't – and we felt that the foundation was a better route for our particular company. One of the things we hope it brings, besides a certain amount of impartiality and objectivity, is a greater residual knowledge of the voluntary sector and community partners. This distinct knowledge base can be very valuable in working alongside our businesses.

So you are almost saying that having a foundation actually aligns you with the voluntary or non-profit sector rather than just with your business?

Yes, having a foundation is one way of clearly delineating a set of people with expertise about the community and good voluntary sector partners. These people are then in a position to advise our businesses and equally to talk to people in charities about how they might interact with our business people.

Some of your community policies are going to be carried out through the Diageo Foundation and some in your role as Director of Corporate Citizenship. How is it determined which policies will go through which route?

They are really very distinct roles. All our charitable giving goes through one of the foundations, but being Director of Corporate Citizenship is more broadly about how our company interacts with society. While our charitable giving is a large amount of money, £20 million, it's dwarfed by our business turnover, which is about £14 billion. Clearly the way we conduct our business can have a huge impact on society and the environment, so working with our business managers to set up things like social auditing, and understanding the impact we have, is very important both to the company and to the community.

THE COUNCIL ON FOUNDATIONS

Founded in 1949, the Council on Foundations began as an association for community foundations and ‘trusts for community welfare’. It is now the largest association of grant-making foundations and corporate giving programmes in the world. Nearly 1,600 members include organizations from all 50 US states and 15 countries outside the US.

Now poised to begin a year-long celebration of its fiftieth anniversary, the Council looks back on a successful half-century of work to strengthen the infrastructure of organized giving. For Council President and CEO Dorothy S Ridings, however, the anniversary is far more significant for the opportunity it presents to anticipate the future.

‘While the world has changed in amazing ways that no one could foresee 50 years ago, the need for philanthropy in all its manifestations has not abated,’ says Ridings. ‘The potential role for philanthropy in expanding the benefits of our phenomenal technological, scientific and social progress to those who have not experienced it is profound. At the same time, foundations and corporate giving programmes have important work ahead in preserving traditions and cultures and ameliorating the negative effects of our progress.’

Today the Council represents all types of grant-maker – independent, family, community, public and company-sponsored foundations, as well as corporate giving programmes. More than a trade association,

however, the Council is a chartered charitable organization with its own mission: to promote more responsible and effective philanthropy.

In terms of numbers, Council members represent a small proportion of the approximately 40,000 foundations in the US. In terms of their grant-making impact, however, Council members made \$7.13 billion in charitable distributions in 1996 (the latest year on record) or roughly 60 per cent of all foundation giving that year. Council members provide funding for programmes across the philanthropic spectrum.

‘Principles and Practices for Effective Grantmaking’

As part of its mission to promote responsible philanthropy, the Council asks its members to subscribe to a set of ‘Principles and Practices for Effective Grantmaking’. When they were inaugurated by the Council’s board in 1982, this caused some controversy. Individualism runs deep in American culture, and foundations cherish their right (and obligation) to follow the personal, even idiosyncratic,

visions of their founders. Some in foundations saw the promulgation of ‘principles and practices’ as an attempt to inhibit or dictate the activities of their organizations. A close look, however, reveals that they offer broad guidelines for general approaches to foundation governance and management. Within these guidelines there is, by design, wide latitude for foundations to shape their own philosophies and actions.

Services for members

The Council provides an array of programmes and services to assist its members in achieving their charitable goals:

- ▶ Community Foundation Services
- ▶ Family Foundation Services
- ▶ Corporate Services
- ▶ Research programmes

In addition, the Council houses and collaborates with the Forum of Regional Associations of Grantmakers. The Forum serves a network of 24 associations of grant-makers. These range from citywide associations, such as the Donors Forum of Chicago, to the Conference of Southwest Foundations, which covers eight states.

Each of the Council’s service areas offers its constituents information clearinghouse capabilities, technical assistance, annual meetings and other

workshops and seminars, newsletters and a wide range of publications. The Council's research department conducts a variety of research projects on grant-makers' management and compensation practices, investment policies and other activities. These result in a variety of publications, including the annual *Grantmakers Salary Report* and the two-yearly *Foundation Management Report*.

International grant-making represents a growing area of involvement for US foundations and corporations, and the Council's International Programmes area has been growing also. The Council recently collaborated with the Foundation Center to publish *International Grantmaking: A Report on US Foundation Trends*. This publication provides the first exhaustive study of the subject and is sure to be a much-used resource for many years.

The Council publishes *Foundation News & Commentary*, a bi-monthly magazine covering the non-profit sector and current philanthropic issues and activities, and *Council Columns*, a monthly newsletter designed to keep members and subscribers up to date on Council activities.

The Annual Conference focuses on political, social and economic issues. The three-day event, held in a different city each year, provides an unparalleled opportunity for grant-makers to study current issues in philanthropy, as well as the funding approaches of colleagues from all over the

world. The theme of the 1998 conference, to be held in Washington DC, is 'Philanthropy's Many Voices in Public Policy'. Other educational seminars and meetings held throughout the year concentrate on specific programme and management issues, tax and regulatory policies, administration and governance, and communications.

External audiences

The Council seeks to communicate information about foundations, corporate giving programmes and the role and value of philanthropy to a number of external audiences. Through its government relations area, the Council represents grant-makers and their concerns to policy-makers in Congress and regulators in the Internal Revenue Service. Through its communications and public relations programmes, the Council conveys to the media and opinion leaders information about philanthropy and its impact on daily life.

Foundations are largely apolitical, and are forbidden by law to engage in direct lobbying on legislation unless the legislation affects them directly. Nevertheless, foundations often find themselves criticized – from the political left for being too conservative and cautious, and from the political right for being too radical and reckless. Such charges usually say more about the predilections of the critics than the actuality of foundation funding. But they perhaps do

reflect one reality: foundations must say 'no' to grant-seekers far more often than they say 'yes'. Some criticism springs from dissatisfaction with those who receive foundation grants as much as with the foundations.

A recent survey sponsored by the Council revealed that the American public thinks highly of foundations but understands little of what they do or how they work. Moving to counteract this lack of information, the Council has launched a three-year initiative to better inform Congressional lawmakers, members of the media and the public about the countless positive contributions of organized philanthropy.

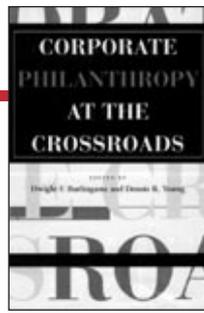
Facing the new millennium

The Council is embarking on its second 50 years at the dawn of the millennium. Committed to the continued growth and development of organized philanthropy as one of the greatest assets for social progress in both the developed and developing worlds, the Council extends its invitation to charitable grant-making foundations around the globe to join in promoting thoughtful and effective giving – responsible philanthropy – everywhere.

For further information, contact Greg Barnard, Director, Public Relations, Council on Foundations. Tel +1 202 467 0450 E-mail barnag@cof.org

The Council on Foundations' regular column appears on p35.

Books



Corporate Philanthropy at the Crossroads Edited by Dwight F Burlingame and Dennis R Young
Indiana University Press
\$29.95/£24.95

Michael Brophy

Corporate Philanthropy at the Crossroads is an excellent book of course, but left me a little disappointed. Those who depend on a living doing research on the US non-profit sector have to produce volumes which to a greater or lesser extent report worthy, well-worn themes. In this case they do it with wit and grace more often than not. Eight academics, one student, two volunteers and two *retired* business people summarize conference discussions of the past decade without breaking much new ground. This makes the title of the book somewhat misleading because the authors go neither to the right or to the left, nor disappointingly get as far as the crossroad. And their kind of wit

Michael Brophy is Chief Executive of CAF.

Masters of Illusion: The World Bank and the poverty of nations by Catherine Caufield
Macmillan £20

can be seen from the title of the last chapter which is called 'Paradigm Lost'.

In my view a book does need to be written about Corporate Philanthropy at the Crossroads. It would say the lights are green, go ahead into a big and exciting country. In that country companies will become the facilitators for their clients and consumers as well as their staff to enable them to combine to make a difference to society.

This therefore is more of a text book than one breaking new ground. As such it is good, but it needs a new title!

My second book is altogether different. It's like 15 rounds with Mike Tyson. It's about the failures of the World Bank. The Bank is used to criticism. *Masters of Illusion* insistently lists the Bank's failures to the point when the reader cries out: CLOSE THE BANK. COUNT THE COST. SETTLE NOW! More personally it says to Jim

Wolfensohn that he has never run anything as big as this huge bureaucracy and asks can he learn now? It infers that his heart-on-the-sleeve approach saying sorry isn't the answer. The Bank needs to make reparations for the colossal harm it has done to so many countries and so many millions of the poor. Like religion the Bank is good in concept, but it has been plain wrong in practice decade after decade.

It suggests an over-cosy relationship between the Bank and major private banks: that the proud boast of 'there has never been a default' equates to 'if you can't pay we will roll the loan over at a higher rate with a substantial fee' – in fact manna for all except the poorer countries.

So we have US academics in their towers feeding on the corporate body of philanthropy and we have the World Bank's idealism doing harm on a colossal scale.

The common denominator is the need for new approaches based on the longer term which are both more ambitious in size and more involving of people. Individuals – be they clients of big corporates or recipients on the ground of development aid – need to be more involved. The quick multi-million fix does little good and most often harm. But I guess Mr Wolfensohn knows all this!

Books in brief

Players and Issues in International Aid by Paul Hoy
Kumarian Press \$45 hardback
\$21.95 paperback

A one-stop source of introductory information which provides a basic overview on the issues surrounding international development assistance.

To order phone KP on
+1 860 233 5895

European Grants Index
European Foundation Centre
45 ECU/\$55

Lists over 1,750 grants and programmes of foundations and corporate funders active in Europe, and the first-ever European-level statistical analysis of funding.

To order phone the EFC on
+3 22 512 8938 or send a
blank e-mail message to
info-pubs@efc.be

**International Grantmaking:
 A report on US foundation
 trends by Loren Renz,
 Josefina Samson-Atienza,
 Trinh C Tran and
 Rikard R Treiber** *The Foundation
 Center in cooperation with the
 Council on Foundations* \$50

Steven Burkeman

undertaken'. This book seeks to fill that gap, at least in so far as US foundations are concerned. Its 258 pages include an analysis of grants made by some 39,000 foundations, and also of the over 50 per cent of foundation grant dollars given for international work by just over 1,000 of them. These are accompanied by results of interviews with representatives of 26 international grant-makers, several useful perspectives essays, and detailed profiles of more than 60 leading grant-makers.

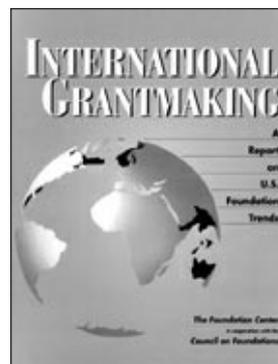
Steven Burkeman is Trust Secretary at the Joseph Rowntree Charitable Trust, York, UK. He is Hon Sec of Interfund (an international donor consortium working in South Africa) and a founder board member of Charity Know How, a UK consortium making grants for work in eastern and central Europe.

US foundation giving overseas grew in the 1990s, but not as fast as foundation giving generally – and as foundations spent more overseas, the US government spent less. More overseas organizations are seeing the value of fundraising in the USA and

It is surprising to read here that 'a comprehensive review of trends in international grantmaking has never been

establishing US registered offices, making it easier for the foundations to make them grants without the (sometimes messy) business of actually having to send money abroad. Nor is the traffic all one way – European funders have been known to make grants to US organizations, as one of the essayists notes. However, this appears to be limited to a few rather untypical foundations.

An interesting essay by Mary Lord focuses on grant-making in the areas of Peace, Security and International Relations. This demonstrates the fickleness of some US donors, apt to move in and out of fields of activity on what to this reviewer seems little more than a whim – with serious



consequences for those actually doing the work, and dependent on foundations for their income. Over a ten-year period, just 19 of 108 foundations funding in this field stayed in for the full decade. To mix metaphors, there must be a halfway house between sticking in the mud and jumping on bandwagons. In illuminating this and many other issues, the editors of this volume have performed a significant service.

To order phone the
 Foundation Center on
 +1 800 424 9836

Posters, posters, posters

The European Foundation Centre Funding East Grantmakers Group invites NGOs from Central and Eastern Europe and the Newly Independent States to submit proposals for a Poster Exhibition at the EFC Annual General Assembly (AGA) in Turin, Italy in November 1998.

The exhibition will highlight the positive achievements of NGOs from the region. Proposals should address 'hot issues' – for example conflict resolution, combating corruption, tolerance building, or environmental preservation.

For further details
 contact Christo Velkov.
 Tel +32 2 512 8938
 Fax +32 2 512 3265
 E-mail christo@efc.be

**Books
 in
 brief**

**The Non-Profit Sector
 in Italy** Edited by
Paolo Barbetta
*Manchester University
 Press* £47.50

**The Non-Profit Sector
 in Sweden** Tommy
**Lundström and Filip
 Wijkström**
*Manchester University
 Press* £45

The latest books to be published in the Johns Hopkins Non-Profit Sector series. An in-depth analysis of the role played by the non-profit sector in Sweden, one of the most welfare-oriented societies in Europe, and in Italy, where non-profit organizations are active in a great diversity of areas.

To order either of these,
 phone MUP on
 +44 161 273 5539

**Beyond Prince and Merchant:
 Citizen participation and the
 rise of civil society**
 Edited by John Burbidge
PACT Publications \$29.95/£19.95

People are no longer willing to leave governments and business to lead. Citizens are seizing the initiative. This book explores the 'global mosaic' of civil society today.

To order contact the
 Institute of Cultural
 Affairs:
 +1 206 323 2100 (USA) or
 +44 161 448 2497 (UK).



COUNCIL ON FOUNDATIONS

There has been a dramatic increase in the number of new private foundations formed in the US since 1980. Many of these newcomers find their way to a special conference for family foundations sponsored each year by the Council on Foundations. This conference focuses on the needs and interests of a diverse group of people – ranging from young married couples who have been successful in business and want to do something to ‘make a difference’ to the heirs of fortunes who find they are in charge of foundations almost literally at the ‘reading of the will’.

More than 700 family members, trustees and staff involved in family foundations attended the latest conference in Los Angeles in February. The conference offered sessions on three ‘tracks’: management and governance, grant-making and family issues.

Family issues sessions included sessions on ‘Articulating Family Values’, ‘Women and Men and Philanthropy’, and ‘Sensitive Topics’, in which actors role-played situations suggested by members

For a profile of the Council on Foundations see pp31–32.

For further information, contact Greg Barnard, Director, Public Relations, Council on Foundations. Tel +1 202 467 0450 E-mail barnag@cof.org

efc EUROPEAN FOUNDATION CENTRE

The Transatlantic Civil Dialogue (TACD), a new initiative taken in cooperation with the European Commission, the US State Department and the World Bank, has moved ahead. On 3 March the Funders Committee evaluated the work to date and set priorities for funding: developing and sustaining closer cooperation between donors in the new Europe and the USA.

The first International Meeting of Associations of Grantmakers took place in Mexico in February with an underlying theme of ‘solidarity through subsidiarity’. The meeting was attended by representatives from five continents, including a strong contingent from Europe. It offered an excellent opportunity for exchange of expertise and knowledge.

The World Alliance for Citizen Participation, European Hub (CIVICUS-Europe), met in Brussels in February. The key mission of CIVICUS is safeguarding the right to associate. Participants emphasized the importance of building on the

For further information, contact the EFC. Tel +32 2 512 8938 Fax +32 2 512 32 65 E-mail efc@efc.be Website http://www.efc.be

of the audience based on their own ‘most difficult experience in a board meeting’.

One of the highlights of the conference was a plenary session at which Susan Packard Orr and Julie Packard – daughters of computer entrepreneur David Packard – discussed their involvement in the foundation started by their parents, the David and Lucile Packard Foundation, now the nation’s third largest foundation, with \$8.9 billion in assets.

Most family foundations are much smaller. Of the more than 40,000 private foundations in the US, only about 12,000 either have \$1 million assets or make charitable grants of \$100,000 a year or more. Of the remaining 28,000 foundations, many are family foundations, and many will see their assets grow over the coming years. These foundations thus represent a powerful new presence in American philanthropy.

Many donors also turn to community foundations when establishing charitable endowments, and these also continue to grow.

experienced organizations already existing in Europe and of having an organization that serves the new, post-1989 Europe. It was agreed that the Hub should be in Lisbon with relays in Brussels and central and eastern Europe. (For full details see the CIVICUS website: www/civicus.org)

Italian member foundations of the EFC and other important national foundations are meeting in Venice on 20 April. The meeting will further define the common interests between the EFC and the Italian foundation community, in the context of the upcoming EFC Annual General Assembly and Conference scheduled for 8–10 November (see Conference Calendar on pp 47–48).

An EFC Member, Banco Bilbao Viscaya, has launched a Foundation Magna Carta Project. The project sets out to involve leading European thinkers in reviewing and documenting European philosophy on grant-making. From this debate guidelines will be drafted to accompany the European foundations into the twenty-first century.

ASIA PACIFIC PHILANTHROPY CONSORTIUM

'This is a first!' noted one of the conference

participants at the APPC-organized international conference on 8–11 January 1998. Entitled 'Supporting the Non-Profit Sector in Asia', the conference was a first in several respects. It was the first time such a diverse group had come together to discuss the non-profit sector in Asia. Approximately 120 representatives of Asian, American and European private and corporate foundations, bilateral and multilateral development agencies, Asian governments, and Asian and international non-profit organizations participated.

It was another first because of the five themes discussed:

- ▶ the importance of encouraging and sustaining external and indigenous support of the non-profit sector;
- ▶ increasing public awareness of the sector through research, documentation and information dissemination;
- ▶ improving the legal, regulatory and fiscal framework;
- ▶ increasing the absorptive capacities of Asian non-

profit organizations, including their technical and fundraising capacities;

- ▶ strengthening the capacity of intermediary organizations to match resource needs with available supply.

The conference was also the first time the Consortium-managed non-profit law research project had been presented to the public. The study, conducted with a common analytical framework, was the first effort systematically to document the legal and regulatory framework for non-profits in ten Asian countries (see p40 for details).

Looking ahead to the next three-year period, APPC intends to continue focusing on key strategic issues that affect philanthropy in the region. In particular, it plans to:

- ▶ promote NPO partnerships with corporations;
- ▶ conduct a comprehensive analysis on resource generation for Asian non-profits;
- ▶ further develop the next generation of foundation and non-profit leaders;
- ▶ promote in-country reforms on the legal and regulatory environment;
- ▶ establish internet-linked information centres for grant-makers, grant-seekers and researchers.

replicate a development education programme designed to help young people in the USA to recognize the importance of their role in the international community.

While the initial effort will be spearheaded by USAID and its partners, ultimately it will be implemented by the schools and students themselves, working with local officials, non-profit organizations and the private sector. Local participation is essential in shaping the programme to fit the local situation. Modifications to the Norwegian model will most likely include private funds as opposed to government funds to match student contributions. The way in which students raise funds may also be different.

The first year of the US programme will be devoted to helping pilot schools in Vermont, Minnesota, Washington, North Dakota and Washington DC.

USAID's goal is to make Operation Day's Work – USA a nationwide annual event by the year 2003.

For a personal account of the conference, see p6.

For further information, contact Jaime Faustino at the APPC secretariat. E-mail appc@mozcom.com The conference report will be available in April 1998.



USAID has issued a challenge to America's youth with the recent launching of an exciting new programme. Operation Day's Work – USA will reach American children where they live and learn, and engage them in community service and international affairs.

For more than 30 years, young people in Norway have devoted one day each school year to work in their communities to earn money which is then donated to educational projects in the developing world. The students become fully immersed in all aspects of their chosen country, incorporating its study into the school curriculum. The highly successful programme raises student awareness about global economic issues, the importance of preventing wars, the impact of disease on populations and the need to build democracy.

Based on the Norwegian programme and similar programmes in Sweden and Denmark, USAID and a number of public and private partners will work to

For further information, contact the USAID Bureau of Legislative and Public Affairs. Tel +1 202 712 4320 Fax +1 202 216 3034



LIEN Programme

In February 1998 the European Commission (DGIA) launched a joint call for proposals for the LIEN Programme and the Partnership Programme. Both programmes aim to strengthen the operational capacities of NGOs working in central and eastern European countries and the New Independent States. The European Commission decided to simplify the procedures for grant applicants and to improve the whole management of both LIEN and Partnership initiatives.

The new single application form can be used equally for LIEN or Partnership applications. This will ensure better management and processing of applications. If some specific information has to be provided for either the LIEN or the Partnership Programme, this will be expressly specified.

A new management structure has also been set up in order to provide global and coordinated assistance to both programmes:

▶ A common Financial and Administrative Office

will handle general enquiries and the financial and administrative aspects of both programmes. This includes reception and registration of applications, preparation of contracts and payments, information and communication activities.

▶ Technical Assistance Units will handle the selection and evaluation of applications, the technical monitoring of projects and the more specific technical advice and information aspects of each programme. The Centre Européen de Volontariat will be responsible for the LIEN Programme and Euroconsultants for the Partnership Programme.

Organizations wishing to apply for a grant under the LIEN or Partnership Programme should submit a complete project dossier. The deadlines are 29 May 1998 for LIEN, and 29 May and 30 October for Partnership. Applications must be submitted before 1pm on the relevant day.

*Application forms can be obtained from:
LIEN-PARTNERSHIP
Financial and
Administrative Office –
IBF
Rue Montoyer, 63
B-1000 Brussels
Fax +32 2 237 0955
E-mail info@ldp.ibf.be*

What happened to the Phare and Tacis Democracy Programme?

It has been announced that the Phare and Tacis Democracy Programme will be replaced by the European Initiative for Democracy and Human Rights.

This total shake-up follows an independent evaluation of the Democracy Programme carried out by ISA Consult and a conference in Brussels last October. The evaluation report praised both the micro-projects and the macro-projects programmes, particularly the former, but was critical of the ad hoc projects, which are selected directly by the European Commission without tendering, for being top down, 'much less structured' and 'not transparent'.

The Democracy Programme budget was split three ways, with the lion's share (60 per cent) going to the macro-projects (partnerships of Eastern and Western organizations) and 20 per cent each going to micro-projects and ad hoc projects. The current proposal – to allocate perhaps 60 per cent to the micro-projects and possibly as much as 40 per cent to 'large-scale' projects – has given rise to much concern.

The decision to concentrate on the micro-projects has been welcomed. This represents a move away from Brussels control: micro-projects are administered in country to CEE and NIS NGOs.

The maximum size of grant for micro-projects is to be increased from 10,000 to 50,000 ECU, which will give greater scope to these projects. Anxieties have also been expressed about grant-making priorities being increasingly aligned with priorities for accession to the EU.

But what has caused real concern is the possible doubling of the amount allocated to 'large-scale' projects. There is talk of these projects being run by very large Western foundations or the Council of Europe. The Council of Europe has been mentioned as one organization that has lobbied hard to retain the ad hoc projects, in the face of all the criticisms levelled at them. It seems that this lobbying was extremely successful.

A new law for the Italian non-profit sector

Pasquale Ferraro

With Law 460, entered into effect on 2 January

1998, Italian legislators have modernized the non-profit sector in two principal ways.

The new law distinguishes between mutual benefit organizations (MBOs) and public benefit organizations (PBOs), and governs only the latter. Italian PBOs are now called 'ONLUS', roughly translated as Non-Profit Organizations for Social Utility.

First, the law groups within a single framework all fiscal treatment regulating ONLUS. This change has simplified the task of ONLUS, which used to have to search through a myriad of tax laws affecting the sector and could not rely on uniform treatment.

Second, the law provides for the creation of a registration and control body, which should emulate the British Charities Commission. The new body will

ensure compliance with certain standards and improve public accountability of ONLUS. Public accountability and transparency will also be improved by the new law's requirement that ONLUS with revenue exceeding 2 billion lire (about \$1.2 million) for at least two consecutive years undergo an external, independent audit.

Pasquale Ferraro is Deputy Director of the International Development Law Institute in Rome.

The Japanese NPO Bill – a real step forward

On 19 March 1998 the Japanese NPO Bill passed the House of Representatives and so became law.

Originally known as the 'Bill to Promote Citizens' Activities', the Bill enables Japanese non-profit organizations (NPOs) to obtain legal status as 'non-profit corporations'.

Prior to this the Civil Code did make provision for the legal incorporation of NPOs provided they:

- ▶ serve the public interest;
- ▶ do not operate for the sake of economic gain;
- ▶ are either an association or a foundation;
- ▶ are approved by the relevant government agency.

Incorporation was a complicated procedure, however. The definition of public interest was not clear, and associations and foundations were required to have very substantial income/endowment. The process of incorporation took on average one or two years.

Under the new Bill the authority for granting legal status will lie with prefectural governors, except where NPOs' offices are

situated in more than one area. Decisions on whether or not to grant legal status must be made within four months. The granting authorities will have the right to order reports or conduct inspections where an NPO is suspected of breaking the law.

Critics of the Bill have pointed out several shortcomings. Probably the most serious is that the Bill gives no tax incentives to donors. However, the Bill now includes an 'incidental resolution' that a review of the tax system should take place within two years of promulgation of the Bill.

The Bill has also been criticized for limiting 'citizens' activities' to 12 categories, not including ombudsman or other consumer advocacy activities. Again,

additional clauses have been added to the Bill which do allow for advocacy activities. These are to the effect that the *main* purpose of an organization should not be:

- ▶ to promote, support or oppose a specific political belief, or
- ▶ to recommend, support or oppose specific elected officials or candidates for public office or a political party.

Fears have also been expressed that giving the granting authorities the right to conduct inspections will increase government control of NPOs.

In general, however, the non-profit sector in Japan sees the Bill as a real step towards achieving a legal framework that encourages rather than discourages citizens' activities.

New Income Tax Bill could make life difficult for Indian charities

Noshir H Dadrawala

Under the Income Tax Act 1961, charitable organizations in India (whether registered as a public charitable trust, society or section 25 company) are not liable to pay any income tax, provided certain conditions required under the law are fulfilled. Some of these conditions have been tightened – in some cases even made oppressive – under the proposed new Income Tax Bill 1997.

Surplus income

Under the present Act, income derived from property held under trust wholly for charitable or religious purposes is exempt from tax, provided 75 per cent (60 per cent under the proposed new Bill) of the income is applied to such purposes in India.

Under the existing Income Tax Act, where an organization is unable to spend 75 per cent of its income in the previous financial year (ie before 31 March), because of reasons such as late receipt of interest or a grant, the trustees have the option to spend the surplus during the immediately succeeding 12 months. Any income not spent at that point would become liable for tax at the maximum marginal rate (currently 30 per cent). The proposal is that this should be reduced to just three months.

Under the present law, surplus income can also be accumulated for a period not exceeding ten years for specific projects such as construction of new school buildings or a new wing of a hospital. The proposed new Bill has no provision for accumulation of income for such long-term purposes or projects.

Corpus fund

Under the present Act, donations towards the corpus of a trust – voluntary contributions made with a specific direction that they shall form part of the trust or institution – are treated as a capital receipt and not as income.

Under the proposed new Bill, if any *cash* contribution is received (ie a donation other than in kind or by crossed cheque or crossed bank draft) towards the corpus of the trust, it will be treated as income. This applies to money received through cash collection boxes at temples, churches, hospitals or schools, regardless of any indication put on or near the collection boxes that contributions will be towards the corpus. Consequently, 60 per cent of the amount collected will have to be applied for charitable purposes.

Removal of special exemptions

Under the present Act, certain institutions or associations engaged in activities such as scientific research, education and running charitable hospitals enjoy certain special benefits under various provisions contained in a group of different clauses of section 10. For example, a charitable hospital or medical institution approved under section 10 (22A) or an educational institution approved

under section 10 (22) need not invest its funds only in the approved securities, nor use 75 per cent of its income during the financial year. The special exemption thus provides much greater operational freedom. Under the proposed Bill, all such institutions will lose their special exemption, unless notified by the central government.

Modes of investment

At present, charitable organizations must invest or deposit their funds in the forms and modes specified in section 11 (5) of the Income Tax Act. The limited choice offered under this section has been further circumscribed in the new Bill with the omission of investment or deposit in industrial development or credit banks, housing finance corporations and mutual funds.

Conclusion

The new Bill thus penalizes organizations if they receive income late in the financial year, removes enabling provisions for accumulation of income, further circumscribes the investment portfolio, and discourages the building of a corpus fund. It is likely to receive stiff opposition from the voluntary sector once a stable government is formed at the centre and the Bill goes before Parliament.

Noshir Dadrawala is Executive Secretary of the Centre for Advancement of Philanthropy, Mumbai.

Non-profit law in ten Asia Pacific countries compared

The Asia Pacific Philanthropy Consortium's (APPC) Comparative Nonprofit Law Project, directed by Thomas Silk of California law firm Silk, Adler & Colvin, has three main aims:

- ▶ to develop baseline studies of the existing legal and regulatory framework in ten countries (Australia, China, Indonesia, Japan, Korea, Philippines, Singapore, Taiwan, Thailand and Vietnam);

- ▶ to formulate recommendations for change;

- ▶ to mobilize resources to implement those changes.

The Project expects to publish comprehensive country reports from all ten countries, together with a comparative non-profit law analysis, by the end of the year. The final workshop of the project was presented at the APPC Conference at Bangkok in January.

See the APPC column on p36 for a report on the conference.

Roundtable calls for enabling environment for NPOs

On the initiative of the Europhil Trust and with the support of the International Bureau of Fiscal Documentation (IBFD), tax lawyers, academic experts and policy-makers met in Amsterdam on 8-10 March to discuss the need to create an enabling legal and fiscal environment for NPOs operating both at a domestic and at an international level. The World Bank, the Council of Europe and the United Nations High Commissioner for Refugees each sent an observer. The refusal of nations to recognize or to grant tax privileges to foreign NPOs or their donors was cited as a major problem. Roundtable

participants agreed that considerable political will and creative solutions would be required to improve the situation.

The Roundtable concluded by adopting a Mandate calling for the establishment of an independent working party to prepare recommendations for such an enabling environment and to present them to the next Roundtable, to be held in 1999 in Barbados. The approved model will then be presented to governments and the international community for adoption.

Microfinance law: towards a diagnostic framework

Timothy R Lyman

Legal and regulatory rules can have a tremendous impact on the prospects for successful microfinance institutions in any country. A 'diagnostic' framework is a tool for microfinance practitioners and their legal advisers to help them identify and organize conceptually the applicable existing rules and potentially also a platform from which to argue for legal and regulatory reform.

What is 'microfinance law'?

Globally, non-profit organizations (NPOs) typically provide the legal nest within which microfinance institutions¹ (MFIs) are 'born and raised'. Non-profit legal status generally corresponds well with the social objectives of the microfinance movement: to provide capital to the business initiatives of the needier members of society who lack access to the conventional commercial sources of capital. For this reason microfinance practitioners seldom question the appropriateness of this category of legal entity for the work of MFIs, particularly new ones.

The available non-profit legal structures, however, often do not fit as comfortably with other attributes of microfinance. For example, by fostering businesses (even very small ones) microfinance opens the door to questions about the appropriate relationship between the social objectives of non-profit MFIs and the commercial objectives of their borrowers. In addition, frequently there is tension between the accepted social and legal conception of appropriate 'non-profit, public benefit purposes and activities' for NPOs and the highly businesslike behaviours in which MFIs must engage in order to achieve (or at least approach) the goal of self-sustainability. MFIs must themselves strike a delicate balance between the social objectives of serving needier and riskier borrowers and the practical economic necessity of consistently achieving an excess of revenues over expenses.

Achieving this balance under the legal rules applicable to NPOs, however, is usually only the first step. The most formidable legal challenges facing many MFIs may arise not under rules governing NPOs but rather under legal and regulatory provisions relating to lending activity – and particularly under those provisions designed for formal financial intermediaries of the conventional commercial banking and financial sector. The laws and regulations that govern the banking and financial sector have an

obvious additional relevance for those MFIs that become ready to branch out beyond microcredit activities to offer other financial services and raise capital from depositors and investors.

Legal issues relating entirely or primarily to microcredit borrowers can be among the more critical determinants of an MFI's success or failure.

Although many microcredit borrowers do not operate formal businesses (and therefore avoid many of the legal requirements that affect formally registered businesses), the legal environment in which borrowers' businesses operate always remains an issue of great interest to their MFI lenders. In fact, legal issues relating entirely or primarily

to microcredit borrowers can be among the more critical determinants of an MFI's success or failure.

'Microfinance law' – the universe of legal provisions and administrative regulations that directly or indirectly affect MFIs – includes all three of these general topics:

- ▶ NPO-related rules;
- ▶ rules governing formal financial intermediaries and financing activities;
- ▶ the rules applicable to small businesses.

The legal challenges facing MFIs result partly from the frequent 'lack of fit' caused by the fact that, generally speaking, none of these three bodies of law tends to develop with microfinance specifically in mind. But perhaps equally often the challenge lies in making these three hitherto entirely independently conceived (although potentially overlapping) sets of rules work harmoniously together.

Towards a diagnostic framework: some things to look for

A diagnostic framework for the different bodies of law and regulation that affect MFIs can serve a number of useful purposes. By facilitating an understanding of the relevant rules and principles

¹ The term 'microfinance institution' as used here includes both 'credit only' organizations and all manner of depository and investor- or member-owned financial institutions serving needier populations.

separately, a diagnostic framework provides insight into the points of tension where the rules and principles overlap or collide. This, in turn, can provide practical ideas for addressing problems that arise in practice under the rules and principles as they exist. Also, by linking the rules and principles in a more *comprehensive* analytical fashion, a diagnostic framework offers a means of identifying specific inadequacies in the rules and principles as they exist and therefore provides the basis for a ‘wish list’ of adaptations to achieve a more ideal legal and regulatory environment for microfinance.

NPO-related law

An initial diagnostic task with respect to the legal and regulatory issues that face MFIs based upon their status as NPOs is to identify the relevant conceptual categories into which the issues fall. Three categories of NPO-related law and regulation merit analysis:

- ▶ provisions relating to setting up, registering and operating NPOs and to the legal powers of such organizations (‘status rules’);
- ▶ special provisions that are applicable based upon the specific types of activity engaged in – of which, in MFIs’ case, lending activities are the most important (‘activity rules’);
- ▶ provisions relating to the tax and other fiscal treatment of such organizations, their activities, their capital and their revenues (‘fiscal rules’).

Status rules The following questions require attention, among others:

- ▶ Is fostering microenterprise recognized as an appropriate purpose for NPOs?
- ▶ Are there specific relevant limitations on NPOs’ legal powers, such as a prohibition on lending or borrowing, or a requirement that all assistance provided by NPOs be gratuitous or at a below-market rate of return?
- ▶ Is there a clear legal path to transform into types of legal entity other than an NPO if, for example, an MFI becomes ready to provide financial services beyond just lending or wants to raise capital from investors or the general public?

Activity rules A critical threshold question is whether an MFI organized as an NPO, merely by making loans, subjects itself to treatment as a regulated financial intermediary. Even if not, financing

activities alone may subject MFIs to rules which are unrelated to their status as NPOs but none the less merit consideration, as discussed below.

Fiscal rules MFIs organized as NPOs need to know how their activities and revenues will be accounted for and taxed. This raises the following issues, among others:

- ▶ Do the relevant accounting and tax rules impose significant relevant taxes, such as a tax on capital or on net interest income?
- ▶ Are they silent or so ambiguous as to leave NPOs exposed to capricious taxation?
- ▶ If the country in question has value added taxation (VAT), is the appropriate VAT treatment of NPOs serving as MFIs clear? Are ‘zero rating’ or other VAT preferences available for microfinance activities?
- ▶ Do the relevant accounting rules permit full recognition of actual expenses in determining any income that is subject to tax, or are artificial caps placed upon deductible expenses?

Law relating to formal financial intermediaries and financing activities

Despite significant potential variation from country to country, a few basic types of laws and regulations, which almost invariably exist in some form for the conventional banking and financial sector, are likely also to affect MFIs:

- ▶ regulatory provisions – basic rules which, in a well-conceived system, aim at guaranteeing stable and efficient financial markets and financial institutions (‘regulatory rules’);
- ▶ supervisory provisions – basic rules for monitoring compliance with the applicable regulatory provisions (‘supervisory rules’);
- ▶ laws and regulatory provisions on the tax and other fiscal treatment of the regulated financial sector and financing activities, including accounting rules (‘fiscal rules’);
- ▶ laws and regulatory provisions on loan documentation, loan collateral, the mechanics of loan collection and realization on collateral and related issues (‘lending-related rules’).

Regulatory rules The first and most important question for NPOs that wish to engage in microlending is whether the relevant provisions include within the sphere of regulated financial institutions

organizations that engage *only in lending activities with donated capital*. A primary objective of regulatory rules for the formal financial sector is to protect the public and the markets against certain risks that arise only in the context of true ‘financial intermediation’ – a term used in the commercial banking and

financial sector to refer to the activity of a financial institution that attracts capital from depositors or investors and uses that capital for making loans. It is common, therefore, for the regulatory rules that define the parameters of the regulated financial sector to include within those parameters only true financial intermediaries and to leave to other bodies of law any regulation of lending activity undertaken by itself. If the regulatory rules in question do not extend to MFIs engaged only in lending with donated capital, there remain a number of other issues of interest, looking forward to a time when ‘credit only’ MFIs may want to branch into other financial services and take on the role of true financial intermediary. Perhaps chief among these issues is the practical feasibility for smaller-scale institutions to become regulated financial intermediaries under the relevant regulatory rules.

Supervisory rules These are supposed to implement the regulatory rules. If MFIs engaged only in lending donated capital are not included within the regulated financial sector, they are therefore likely to avoid supervision by the relevant financial institutions supervisory agency. Avoidance of supervision is not necessarily a good thing for the broader microfinance sector. In fact, MFIs might well have on their legal and regulatory ‘wish list’ some sort of body (perhaps itself an NPO rather than a governmental agency) with the power to identify and stop dangerous and risk-taking behaviour within particular MFIs that could lead to financial failure at a high cost to the public reputation of the microfinance sector as a whole.

Avoidance of supervision is not necessarily a good thing for the broader microfinance sector. MFIs might well have on their ‘wish list’ some sort of body with the power to identify and stop dangerous and risk-taking behaviour.

Fiscal rules Here the concerns for MFIs largely mirror those discussed above with respect to the fiscal rules applicable to them as NPOs. The specific articulation of the rules, however, is likely to vary between those designed with NPOs in mind and those geared to the conventional banking and financial sector. Legally required accounting treatment for regulated financial institutions and their lending activity (such as loan write-off rules and ‘provisioning’ for loan losses) is likely to require special attention.

Lending-related rules This is the category of formal financial sector law and regulation most likely to affect MFIs, including those organized as NPOs and engaged only in lending donated capital. These rules are typically found spread through a large number of different laws (and, in civil law countries, different provisions of the civil code). They also frequently vary significantly from country to country. The more important questions to be asked do not, however, vary so dramatically, and include, among others, the following:

- ▶ Do different lending rules pertain to regulated financial institutions and other types of lender?
- ▶ What requirements of basic contract law (or, in civil law countries, the law of obligations) apply to loan structuring, negotiation and documentation, in order for a lender’s claim to be enforceable?
- ▶ What sorts of collateral are legally available to lenders, and do quirky limitations apply that could be especially troublesome for microfinance (such as limitations on the number of co-guarantors)?
- ▶ Is unsecured or ‘undersecured’ lending legally limited?
- ▶ Are interest rates controlled (which can prevent MFIs from charging sufficient interest to achieve self-sustainability)?
- ▶ Do workable systems (including not only legal rules but also functioning courts or administrative bodies) exist for lenders to collect on delinquent loans and realize on collateral with respect to loans in default?
- ▶ Are lenders permitted sufficient flexibility to restructure loans in trouble?

The basic legal rules applicable to small businesses

Potentially any type of legal or regulatory burden on the poorest borrowers will also have at least an indirect adverse effect on MFIs that lend to them. A threshold distinction needs to be drawn, however, between formal and informal sector borrowers. In many parts of the world informal sector borrowers frequently operate more or less entirely outside the relevant small-business-related laws and regulations. The relevant legal rules thus may have little impact on their business success or creditworthiness. But even informal businesses may feel the effect of legal rules if operating informally carries significant legal risks for them (and therefore also for their lenders), such as the possibility of a visit from the financial police or comparable legal authority. Moreover, to the extent that MFIs may hope to assist at least some of their informal sector borrowers to grow into formal sector business entities, legal and regulatory conditions for (and barriers to) entry into the formal economy become highly relevant.

The range of legal and regulatory provisions in any given country that determines in practice whether a business will fall inside or outside the formal economy is too varied to catalogue here. Critical questions to investigate include the following:

- ▶ Are there available legal procedures for registering sole proprietorships and extremely small businesses?
- ▶ Do the threshold requirements of formal business registration include effective financial barriers to smaller-scale entrepreneurs, such as unrealistically high minimum capital requirements?
- ▶ What ramifications does formal registration of a business have for its employees?
- ▶ Are the relevant accounting and tax rules clear and are tax burdens manageable?

In addition to these questions, the ramifications of formal business registration for microentrepreneurs as borrowers warrant analysis. For example, are registered businesses subject to different collateral requirements from individual borrowers? Do the same requirements of basic contract law (or, in civil law countries, the law of obligations) apply to

both types of borrower with respect to loan structuring, negotiation and documentation? Are the mechanics of loan collection and realization on collateral easier in the case of formally registered business borrowers than in the case of unregistered borrowers?

Developing the diagnostic framework

Microfinance as a global movement is driven by its creative innovators and visionaries and the intrinsic merits of its social objectives. Its success certainly does *not* depend upon the prior establishment of a clear, harmonious and hospitable legal and regulatory environment. The best designed programmes do not begin by asking the question: what legal forms are available to MFIs and what legal limitations constrain them? Instead these programmes

Microfinance as a global movement certainly does *not* depend upon the prior establishment of a clear, harmonious and hospitable legal and regulatory environment.

start with the identification of a good market for their particular type and methodology of social investment.

This is as it should be. However, when the moment arrives to define an appropriate legal structure for the programme envisaged (or perhaps for its next stage, if it already exists and is ready now to transform

itself into a different type of programme), a diagnostic framework may help to identify and work out the issues that must be dealt with and understand the challenges that may arise in dealing with them. Perhaps of greater long-term utility, through application and development in specific decision-making contexts, the diagnostic framework can provide a basis to learn from others' experience and focus support for microfinance-related legal and regulatory reform.

Timothy Lyman is a partner specializing in charitable, NPO and microfinance law with the US law firm of Day, Berry & Howard, Boston, MA, and Hartford and Stamford, CT. He serves as legal adviser to the Microfinance Centre, Warsaw, Poland, and as legal consultant to the World Bank in Bosnia and Herzegovina for microfinance issues.

WORKING IN TWO NEW CONTINENTS

CAF now has representatives working in two new continents. Eugene Saldanha was appointed as CAF Representative for Southern Africa in September 1997, while Mathew Cherian started work as CAF Representative in India in January 1998. In both India and South Africa CAF plans to provide a limited range of services for donors (particularly corporates) and non-profit organizations and to establish publishing programmes. The looseleaf *Working with the Non-Profit Sector in Russia* will be followed by similar publications for South Africa and India. In both countries the emphasis will be on forming partnerships with other sector organizations. In South Africa CAF has begun developing an active profile, and has already made a submission to the government-appointed Katz Tax Commission.

WORKING FOR FINANCIAL SUSTAINABILITY IN SOUTHERN AFRICA



Eugene Saldanha, CAF's Southern Africa Representative.

CAF is poised to become one of the leading players in an

initiative aimed at helping non-profit organizations (NPOs) in Southern Africa to become financially sustainable.

This follows an agreement with the 4,000-member South African National NGO Coalition (SANGOCO) and the Southern African Grantmakers Association (SAGA) to form a partnership to develop services aimed at moving the sector towards financial sustainability.

Both SANGOCO and SAGA have prominent South Africans drawn from the business community, government and the non-profit sector at the helm. CAF's burgeoning international role in providing information, advice

and assistance to donors, charities and NPOs will bring a critical component to the partnership.

The partnership reflects CAF's determination to work in South Africa in partnership with local organizations, and employing South African staff. The services the partnership will offer include a high interest bank account for NPOs, publications on issues affecting the sector, and loans services.

'CAF has responded to a need identified by almost all the NPOs I have met with in the past five months,' said CAF Southern Africa Representative Eugene Saldanha. 'NPOs cannot continue to deliver effectively if they're constantly faced with the threat of closure because of lack of funds.'

FORGING ALLIANCES IN INDIA

India has a substantial non-profit

sector, with over 500,000 registered NPOs, but fragmented. Mathew Cherian, CAF's India Representative, sees one of his key tasks as building alliances within the sector.

CAF will be undertaking research in collaboration with VANI (Voluntary Action Network India). They will be considering issues of accountability in the Indian non-profit sector, looking to develop a

Dimensions of the Indian Voluntary Sector modelled on CAF's established UK publication.

A pilot 'Give As You Earn' programme is testing the concept of payroll giving, almost unheard of in India, with five companies and five non-profits in Bangalore.

On the publishing side, a series of *How to* guides on fundraising within India is being produced. The guides will encourage local innovation and partnerships as overseas funding declines.

CCINET – CORPORATE COMMUNITY INVOLVEMENT ON THE NET

CCInet is a website developed by CAF's Corporate

Services division. It aims:

- ▶ to provide a framework and an online resource for existing CCI programmes and the people who manage them;
- ▶ to act as an indicator of best practice models for the future;
- ▶ to encourage new companies to develop their own social investment strategies.

Corporate funders visiting the website can use the CCI pages to browse the electronic community involvement guides of companies and foundations worldwide. They can link the web address of their own programme if they have one and in doing so create a free electronic filter page. This will ensure that grant-seekers access their site from CCInet only after first reading their grant guidelines (a sample can be seen online).

A wide range of related sites will also provide links to other

sources on corporate governance, ethical investment and other social responsibility questions. Users can browse details of the UK CCI benchmarking project, whereby a group of leading companies have launched a major new initiative to improve the way they record and report their involvement in the community. Finally, a networking bulletin board allows them to share ideas and problems online.

Companies who would like tailored information from CAF can contact its Corporate Services division for more information, either by using an electronic feedback form or by browsing their online services on CAF's main site, linked from CCInet. CAF offers companies a complete range of services from tax-efficient corporate giving to appeals response management and community investment. It operates both in the UK and internationally.

BUILDING LINKS WITH BULGARIAN COMPANIES

Backed by a grant from the US Democracy Network Program, Bulgarian Charities Aid Foundation (B-CAF) is currently implementing an awareness-raising campaign among companies in Bulgaria.

Companies and non-profit organizations in Bulgaria are not used to working together and are not aware of the various ways in which they could cooperate in the implementation of programmes of social benefit. In addition, businesses rarely make use of the tax deductions they are entitled to when making donations. Local authorities, on the other hand, are keen to support partnership schemes between local businesses and the non-profit sector as these could make a significant contribution in fields like social care, culture and education.

It is in this context that B-CAF has been contracted to organize ten business meetings in ten different locations, all outside the capital, Sofia. These enable representatives of local businesses and NPOs to meet and discuss the possible ways they might work together. B-CAF hopes that concrete projects may be established as a result. The participants also attempt to identify the barriers to increased and effective involvement by the business community and to explore ways in which B-CAF can work to reduce these.

About 240 company representatives have now participated in the meetings. Two businesses have become clients of B-CAF and negotiations are under way with several more.

ADMINISTERING EUROPEAN-WIDE CHILDREN'S FUND

CAF's European Office will be administering

the Johnson & Johnson European Fund for Children's Health, to be launched in May 1998. The Fund will be launched in 22 European countries. A brochure will be circulated in 16 European languages and via the Internet.

The aim will be to select innovative programmes which

will have a real impact and inspire others to achieve similar excellence. During the first three years of its operation, the Fund will concentrate on children up to the age of five.

Financial support for chosen projects will range from ECU 5,000 to 50,000. The deadline for submission of proposals is 31 July 1998. The final selection will be announced during November 1998.

For further information contact Corporate Services on +44 171 400 2300 or go to the website: www.charitynet.org/CCInet

For further information contact CAF's European Office. Tel +32 2 544 00 50 Fax +32 2 544 08 80 E-mail caf.europe@pophost.eunet.be

Conference calendar

DATE	ORGANIZING BODY	TITLE/SUBJECT	VENUE & CONTACT
1998			
29–30 May	International Association of Investors in the Social Economy (INAISE)	Annual Meeting	Brussels Christophe Guene +32 2 230 3057
2–3 June	UNHCR, Open Society Institute (OSI), ICNL and the Council of Europe	A sound legal framework to encourage the development of a strong civil society	Kiev (for Western CIS) Natasha Bourjaily (ICNL) +1 202 624 0766 E-mail nbourj@icnl.org
3–5 June	UK Social Economy Forum	6th European Conference on the Social Economy	Birmingham, England Sophie Servagnat +44 121 616 4146
Mid to late June	World Bank and ICNL (International Center for Not-for-profit Law)	Creating a Legal Enabling Environment for NGOs: A Regional Discussion of the World Bank Handbook for West and Central Africa	Abidjan, Cote d'Ivoire Leon Irish (World Bank) +1 202 473 3023; Karla Simon (ICNL) +1 202 624 0766
23–25 June	Association of Charitable Foundations	National Conference: 'Better Giving '98'	Bradford, Yorkshire, UK +44 171 404 1338 for a brochure
25–27 June	Microcredit Summit	Meeting of Councils	New York Alistair Hodgett +1 202 546 1900
8–11 July	International Society for Third Sector Research	Biennial Conference	University of Geneva +1 410 516 4678
19–21 July	Council on Foundations	7th Annual Corporate Community Involvement Conference	Baltimore, MD +1 202 466 6512
22–26 July	National Council of Nonprofit Associations and the Nonprofit Management Association/Support Centers of America	1998 Annual Conference 'Let's Dance'	Atlanta, Georgia Kristina M Ackley Email kackley@ncna.org

DATE	ORGANIZING BODY	TITLE/SUBJECT	VENUE & CONTACT
1998			
12-14 October	Council on Foundations	Fall Conference for Community Foundations	Miami Beach, Florida +1 202 466 6512
20-23 October	International Fund Raising Group	18th International Fund Raising Workshop	Amsterdam Alan Bird +44 171 587 0287
25-27 October	Independent Sector	1998 Annual Meeting	Denver, Colorado +1 202 223 8100
29 October	Charities Aid Foundation	Charities' Annual Conference and Exhibition	London Nikki White +44 1732 520 074
5-7 November	Association for Research on Non-Profit Organizations and Voluntary Action (ARNOVA)	Annual Conference	Seattle, Washington +1 317 684 2120
8-10 November	European Foundation Centre	Annual General Assembly and Conference	Turin Leticia Ruiz Capillas +32 2 512 8938
9-10 November	Peter F Drucker Foundation for Non-Profit Management	1998 Annual Leadership and Management Conference	Los Angeles +1 212 224 2508
12-14 November	Philanthropy Roundtable	Annual Meeting	San Antonio, Texas Lara Stead +1 202 822 8333
1999			
7-10 March	International Events Group	16th Annual Event Marketing Conference (sport, arts, events and cause marketing)	Chicago Michelle Quinn +1 312 944 1727
14-16 March	Boston College Center for Corporate Community Relations	1999 International Leaders Conference	Orlando, Florida Susan Thomas +1 617 552 8672
19-21 April	Council on Foundations	Annual Conference	New Orleans +1 202 466 6512



Laws alone will not serve

At a conference held in Bangkok in early January, one of the sessions dealt with civil society and legal infrastructure. Since embracing the establishment of civil society as one of its major theatres of operation, the non-profit sector has spawned myriad projects whose purpose is to improve the legal environment within which non-profits operate. Legal advice for the accomplishment of this goal has become a growth industry.

The Bangkok discussions concluded that, while improvement in the framework of laws governing civil society is a 'necessary condition' for civil society development, it is not a 'sufficient condition'. Which is to say that laws alone will not serve; where there is no 'rule of law', what can one expect finely honed and tuned legal texts to accomplish?

What then is the 'sufficient condition' to which so many attending the conference alluded? This is a fair question. What is a fair answer?

Every nation has its version of the 'rule of law'. Even the most repressive regimes often have laws dealing with human rights, women's rights, the right to a fair trial, and sometimes the rights of civil society organizations, however such organizations are defined. The problem is that so often such rights are observed only in the breach. Add to this that it is often Western legal experts that are seeking to define suitable legal frameworks, often in non-Western cultures, and one can begin to sense the growing frustration with any exercise that seems to argue that we 'just need to get the law right'.

So, what did those attending the law and civil society discussion in Bangkok mean by concluding that new or different laws may not in fact be the answer?

At this same conference, towards its conclusion, a young woman from Malaysia stood up and commented at length about the main theme of the conference – building partnerships between NGOs,

the government and the corporate sector. One aspect of this 'partnership building' is the role of multinational corporations, the World Bank, and a number of major US grant-making institutions in combined fashion furthering non-profit sector development in the Asia Pacific region. Her comment: 'All of you would do well to remember that colonial powers have only recently been driven from our countries. Now, because of the corruption permitted if not indeed furthered by multilateral institutions, multinational corporations and Western governments – particularly the US – we are told that the answer is to be found in cooperation with the IMF, the World Bank, foreign corporations and foreign governments. We have good reason to mistrust and fear their latest good intentions, particularly if they are going to coordinate among themselves. Only when we can define our own goals and societal needs can we really look forward to the type of civil society we want to achieve.'

A lasting framework of laws cannot be imposed – whatever the good intentions may be. Such a framework must be instituted by the community in accordance with local aspirations, capacity and culture. One might conclude that the participation of citizens in defining their own civil society aspirations and, correspondingly, the laws to protect and nourish it is the only truly 'sufficient condition'.

The next issue of *Alliance* will include ...

► A focus on India

Different approaches to development assessed
Development Alternatives – a low-tech strategy for income generation
 Low-cost but effective – Sense International's 'Indian' approach

PLUS

- North–South resource flows – positive or negative?
- The relationship between the World Bank and foundations/NPOs – the first in a series of assessments