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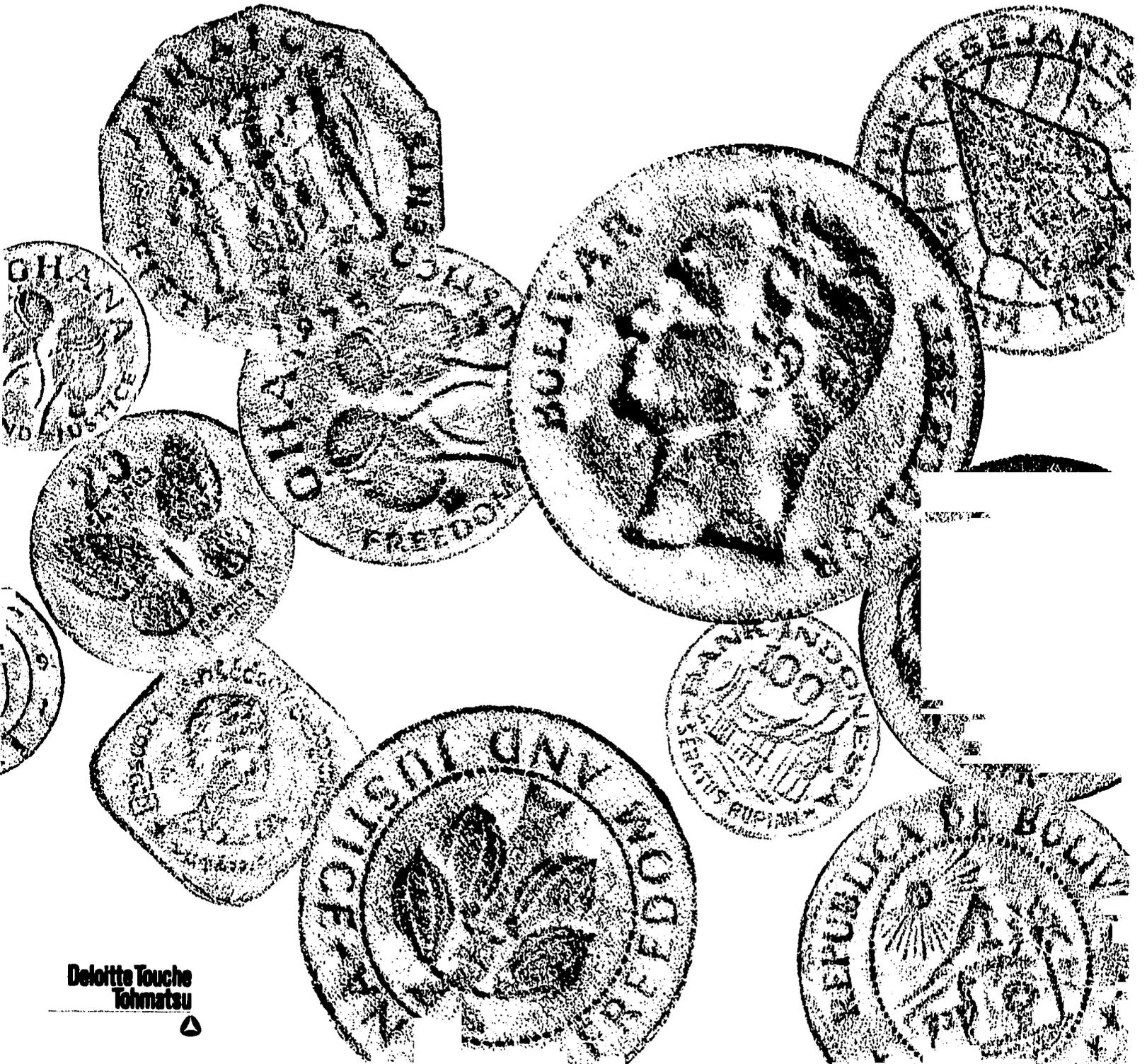
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# PROFIT

Promoting Financial Investments and Transfers

## *Endowments as a Tool for Financial Sustainability*

*A Manual for NGOs*



Deloitte Touche  
Tohmatsu



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**ENDOWMENTS AS A TOOL FOR FINANCIAL  
SUSTAINABILITY:  
A Manual For NGOs**

**PROFIT**

Promoting Financial Investments and Transfers

# TABLE OF CONTENTS

<b>Introduction: Using This Manual</b> .....	<b>1</b>
<b>Who Can Use This Manual</b> .....	<b>1</b>
<b>What Is In This Manual</b> .....	<b>2</b>
<b>How Will This Manual Benefit You</b> .....	<b>2</b>
<b>Part I: Should Your NGO Seek Endowment Funds?</b> .....	<b>3</b>
<b>What Is An Endowment</b> .....	<b>3</b>
<b>Using Endowment Fund Income</b> .....	<b>3</b>
<b>How An Endowment Can Affect Your Organization</b> .....	<b>4</b>
<b>What Does It Take To Start An Endowment?</b> .....	<b>7</b>
<b>Characteristics Of Your NGO</b> .....	<b>7</b>
<b>External Factors</b> .....	<b>8</b>
<b>How Much Work Is It?</b> .....	<b>10</b>
<b>Making The Decision: Should Your NGO Pursue An Endowment?</b> .....	<b>11</b>
<b>Finding Out The Basic Facts</b> .....	<b>11</b>
<b>Analyzing The Facts</b> .....	<b>15</b>
<b>What To Do Next</b> .....	<b>16</b>
<b>Part II: Practical Guidelines</b> .....	
<b>Overview of Part II</b> .....	<b>17</b>
<b>Stage 1. Getting Started: First Steps</b> .....	<b>18</b>
<b>Organizing People</b> .....	<b>18</b>
<b>Refining Your Information Base</b> .....	<b>18</b>
<b>Defining The Endowment Purpose</b> .....	<b>23</b>
<b>Setting The Financial Goal</b> .....	<b>24</b>
<b>Stage 2. Developing The Implementation Plan</b> .....	<b>25</b>
<b>Basic Elements Of The Plan</b> .....	<b>25</b>
<b>How To Develop The Plan</b> .....	<b>26</b>
<b>Stage 3. Putting The Plan Into Action</b> .....	<b>27</b>
<b>Stage 4. Helping The Endowment Grow</b> .....	<b>28</b>

## **INTRODUCTION: *USING THIS MANUAL***

### ***How This Manual Can Help You***

Is your NGO\* seeking greater financial stability and sustainability? Are you looking for new ways to make sure that you can continue operating programs? Do you want more freedom in deciding how your organization spends its money?

An endowment is one of many tools that can help you achieve these objectives. This manual explains what an endowment is and helps you decide whether your NGO should try to establish one. It also provides general guidelines on how to start an endowment and explains what you will have to do to implement these guidelines in your country.

### ***Who Can Use This Manual?***

Any NGO can use this manual to learn about endowments. However, there is much competition for donor endowment funds, and not every NGO will be successful in getting them. Most donors give preference to organizations that are well established in the community, have a relatively long history of providing needed services, can demonstrate their ability to manage and account for money, operate under a long-range plan that defines what the organization will be doing in 10 or 15 years, and are guided by a competent, active Board of Directors.

Therefore, this manual is intended primarily for well-developed NGOs that meet these conditions. However, even if your NGO does not meet these conditions, this manual can show you what you need to do to become eligible for endowment funding. Also, under special circumstances, a donor may decide to provide endowment funds to a newer, less established NGO. For example, a donor might want to endow an organization that provides a specific service in a given geographical area. If yours is the only NGO in that area offering that service, the donor might consider supporting it, even though it does not meet all of the conditions. As another example, some of your Board members may have good relationships with donors. These relationships might persuade a donor to consider endowing an NGO that does not meet all the conditions. There are even cases where donors have endowed entirely new organizations to provide services that were not available before.

Thus, there are no strict rules about what it takes to qualify for an endowment. Each situation is different. It is up to you to decide whether pursuing endowment funds is a good investment of your time. This manual will help you make that decision.

\* For purposes of this manual, Non-Governmental Organizations (NGOs) include for-profit and non-profit institutions which undertake development work using public and/or private donor funds.

## ***What Is In This Manual?***

This manual is divided into two parts. Part I explains what an endowment is and what it takes to start one. It concludes with a practical guide to help you decide whether or not your organization should try to start an endowment. Part II explains how to get started, develop the endowment plan, put the plan into action, and help the endowment grow. It provides general guidelines, but you will have to find out how these guidelines apply in your own country. For example, each country has its own laws and regulations concerning how and where NGO funds can be invested, the kinds of papers an NGO must submit to start an endowment, and the uses of endowment funds. Therefore, Part II does not tell you everything you need to know. Instead, it gives you a broad view of the process and suggests the kinds of local experts you can consult to get detailed information on each aspect of the endowment building process.

## ***How Will This Manual Benefit You?***

Here are some examples of what you will gain by using this manual:

- You will know what an endowment is, and you will be familiar with different types of endowments.
- You will understand how much work it takes to start and maintain an endowment.
- You will be able to estimate whether or not the amount of money an endowment generates is worth the time, effort, and money required to start and maintain one.
- You will know how to assess your own organization as well as the local environment to determine the feasibility of an endowment.
- You will be able to help your organization decide if an endowment is a realistic, reasonable objective.
- You will understand the basic steps involved in starting and maintaining an endowment.
- You will know the kinds of local resources available to provide additional information and help you in endowment planning.

# **PART I:**

## ***SHOULD YOUR NGO SEEK ENDOWMENT FUNDS?***

### ***What Is An Endowment?***

An endowment is a sum of money that is invested to generate income. Like grants, contracts, fees, and other donations, it is one of many income sources and can help diversify your NGO's funding base and reduce your reliance on other sources of funds. An endowment is generally not large enough to support all current operations — and future growth — by itself. Therefore, an endowment alone does not guarantee financial sustainability.

Usually, the endowment money itself — called “the principal” — must remain invested, and you cannot spend it. You can spend only the income generated. For example, you may place your endowment funds in a certificate of deposit at a bank that yields 10 percent interest every year. You may invest the endowment in market stocks that yield different amounts each year and can also increase the amount of the principal. You can spend the interest or stock yield, but you must leave the principal invested. The amount of money available to you depends on the rate of return from your investment. There may be local laws that limit your investment options and/or the amount of interest you can earn from endowment funds.

There are special kinds of endowments that do allow you to spend the principal. These are less common. They are called “term endowments” or “wasting endowments.” The conditions for these endowments vary. You may be permitted to spend the principal at a certain time, for instance 10 years after you receive it. For the first 10 years, you can spend only the interest. You might also be permitted to spend a certain amount of the principal every year, for example 10 percent a year for 10 years. In this case, you can spend both the principal and interest, but the amount of interest will be less each year because the principal gets progressively smaller.

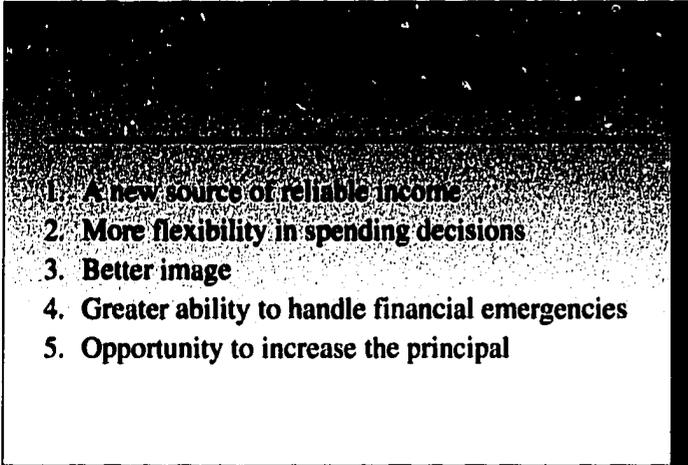
### ***Using Endowment Fund Income***

Endowment funds may be restricted or unrestricted. If they are restricted, you can use the income generated only for certain specified purposes. You might be able to use the money only for a specified program or for service to a certain group of people. Another restriction might be that you can use the money for any program service, but not for administrative and management expenses. For example, the Escuela Agrícola Pan-Americana (EAP or Pan American Agricultural School) in Zamorano, Honduras received U.S. Agency for International Development (A.I.D.) endowment funds for scholarships and uses the interest only for designated scholarship purposes.

If endowment funds are unrestricted, you can use the money for any legitimate purpose as you wish. Since it is often hard to raise funds for administration, many NGOs use endowment income to support these costs and other donor funds to support their programs. The Fundación Hondureña de Investigación Agrícola (FHIA or Honduran Foundation for Agricultural Research) received an unrestricted A.I.D. endowment and uses it to support general operating costs. An unrestricted A.I.D. endowment to Asociación Pro-Bienestar de la Familia Colombiana (PROFAMILIA), a leading provider of family planning services in Colombia, allows similar flexibility.

## **How An Endowment Can Affect Your Organization**

There are both advantages and disadvantages to endowments. You need to consider carefully how an endowment could affect your NGO and decide if the advantages will outweigh the disadvantages. Here are some of the things you will need to think about.



### **1. A new source of reliable income**

As long as you leave the principal in a relatively stable investment, you will be able to count on a certain amount of income every year. This is quite different from annual grants from other donors. Those grants can be discontinued at any time if the donors decide to stop funding you for any reason. For example, PROFAMILIA enjoyed regular annual A.I.D. support for over 25 years, but A.I.D. is now planning to phase out its Colombia operations. The new A.I.D.-supported endowment will provide reliable funding to PROFAMILIA after A.I.D.'s withdrawal. Remember that endowment income is **in addition to** your grants, contracts, fees, and other donations. Although you may incur costs in managing this money or preparing reports about the endowment, you can rely on the income.

### **2. More flexibility in spending decisions**

This is an advantage mainly of unrestricted endowments. Those endowments allow you to spend the income as you wish, and you can spend it differently each year. You may support new ventures, cover administrative costs, or pay for programs and services of your choice. For example, PROFAMILIA plans to use the hard currency generated from endowment investments abroad to purchase family planning commodities on the international market in response to the withdrawal of donated commodities.

The potential advantage of flexibility can apply even to a restricted endowment. A restricted endowment generates money for a specific purpose. If you have **other** unrestricted funds, you will not have to use them for the endowment-supported activity and therefore have greater flexibility in allocating them to other purposes.

### **3. Better image**

An endowment can improve your NGO's image in the community and among donors. It is a signal that the donor thinks your NGO is doing a good job and deserves support. It also indicates that your NGO can be trusted to manage money. A reputation for good programs and good management will help you raise funds from other sources.

### **4. Greater ability to handle financial emergencies**

You can treat endowment income as an emergency reserve fund, using it to pay for unexpected expenses. For example, you might expect a certain amount of money every year from a certain donor. If that donor suddenly decides to stop funding your NGO, you can use the endowment income to replace that funding. As another example, your services might depend on a large number of vehicles to transport your workers or deliver goods and services. If something unexpected happens to those vehicles, you can use the endowment income to buy new ones.

In some situations, you can also borrow from the **principal** to cover emergencies and then pay the money back to the endowment from another source. However, you have to find out if this is legal in your country and permitted by your donor. You also generally have to be sure to pay the money back right away. The Fundación para Desarrollo Agrícola (FUNDAGRO or Foundation for Agricultural Development) in Ecuador negotiated an endowment agreement permitting expenditure of endowment principal in emergencies

### **5. Opportunity to increase the principal**

Your investment options depend on local laws and regulations. The endowment donor might also restrict the kinds of investments you can make. If you are permitted to invest in stocks, business ventures, real estate, or other things that could increase the value of your principal, then a wise investment might make the principal grow. Since the amount of income generated is related to the total amount of the principal, a wise investment can result in higher regular income. In Costa Rica, Educación Agrícola de la Región Tropical Húmeda (EARTH or Agricultural College of the Humid Tropical Region) was able to take advantage of this opportunity. It originally received a \$50 million endowment in local currency from A.I.D.. It is using the interest earned to purchase U.S. dollars. This strategy is expected to increase the endowment principal eventually by \$10 million.

### **1. Less incentive to raise other funds**

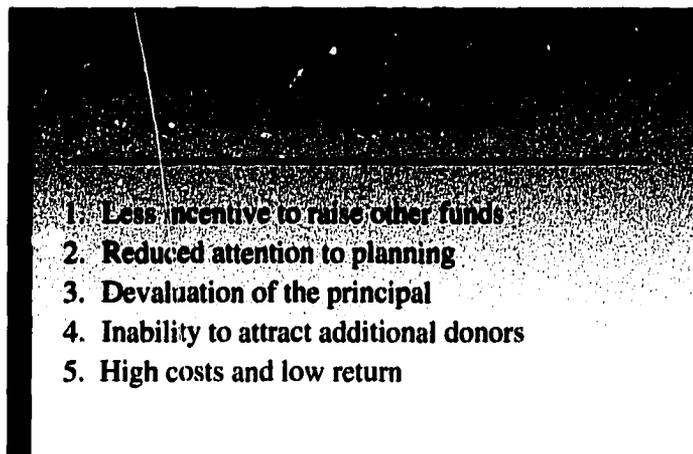
Having an endowment can give your NGO a false sense of security. The Board and others in the organization might think that the endowment income is enough, and that no more fund raising is required. This kind of thinking is risky. Costs are almost always rising, as are demands for service. Also, many NGOs are constantly increasing their range of services to meet the needs of their communities. Everyone needs to understand that normal fund raising activities must continue, even after the organization has been endowed. This includes seeking other grants, contracts, and charitable contributions, as well as charging service fees.

### **2. Reduced attention to planning**

Having an endowment does not mean that your NGO is permanently secure. You still need to engage in planning for the future, developing strategies for organizational growth and strengthening services. You will still need other sources of funds, and most donors expect an NGO to have clear plans and strategies that justify requests for funds.

### **3. Devaluation of the principal**

The purpose of an endowment is to provide a steady source of income. This depends in part on maintaining the value of the principal. In some countries, inflation, currency devaluations, and changes in government policies make it hard to do this. Both EAP in Zamorano, Honduras and the Instituto de Estrategia Agrícola (IDEA or Institute for Agricultural Strategies) in Ecuador have experienced losses in principal value due to existing economic conditions. Because your investment options depend on local laws and conditions as well as the policies of the donor, you are not always in control of the situation. If your principal decreases, the costs of maintaining the endowment may begin to exceed the return you receive from it. In considering an endowment, you need to assess the various financial risks relating to the principal, and how such risks might also affect your expenses.



**4. Inability to attract other donors**

If your NGO has an endowment, other donors may think the organization is rich and does not need additional support. This could cause current donors to withdraw existing support. It could cause others to deny your requests for new funding. You must be able to show **why** you need additional funding and how you will use it. The best way to do this is to develop a long-range plan clearly stating what you plan to do, why there is a need for the programs you propose, and how much money you need to carry out the plan. This will help persuade donors that your NGO truly needs other support and that it will use that support wisely.

**5. High costs and low return**

Endowments can be large or small. The costs of raising and maintaining endowments also vary. The next section of this manual explains what some of these costs might be. While an endowment may seem very attractive at first, you could find that the resources you have to devote to raising the initial principal, managing the money, and reporting on the fund far exceed the value of the return. In other words, it may result in a net financial loss. This is particularly true of small endowments that require a great deal of administration.

*Before you continue reading, stop and think about your own NGO and its environment. If you can identify other potential advantages and disadvantages, list them here. You will use this list when you make your decision at the end of Part I.*


## ***What Does It Take To Start An Endowment?***

Starting an endowment is a big job. It takes lots of time and effort. It may cost money. It may involve developing long-term relationships with donors that will become involved in your NGO and in its programming and financial decisions. Before you start, you need to understand what it takes, assess your NGO and its environment, examine your own resources, and decide whether or not pursuing an endowment is the right kind of investment for your NGO. Here are some of the things you need to consider.

### ***Characteristics Of Your NGO***

There are many aspects of your organization that will determine whether or not you have the capacity to establish an endowment. There are also many aspects that donors will look at in considering granting you endowment funds. To a large extent, you have control over these characteristics. You need to know what key aspects to assess and see how well you measure up.

#### ***Plans***

It is hard to get an endowment without long-range plans. Both you and your donors need to know where your NGO is going, and how the endowment will help you get there. Sometimes these are called strategic plans. They are based on the NGO's goals or mission. Donors view endowments as investments, even though they get no money in return. Before giving endowment funds, they want to be sure their investment is justified, and that the NGO has a definite purpose and direction. A long-range plan is the best way to prove this.

#### ***Reputation***

Your NGO's reputation is a key consideration. Donors will want to know that your services are of high quality and that your clients are satisfied. They will want to know that your organization is well managed. They will want to know that the leadership — the Board and senior staff — are well respected in the community and have good relationships with key leaders. They will want to know that the Board takes an active interest in the organization. They will want to know that the organization has a serious commitment to its goals and is well known for working towards achieving those goals.

#### ***People with key skills***

An endowment involves a lot of work. You need people who can analyze the legal and regulatory environment, explain why you need the endowment and how you will use it, identify potential donors, solicit funds, develop the endowment plan, make investment decisions, oversee the endowment fund, report as required to the donors, and make sure that the funds are used properly. Many of these tasks are usually carried out by Board members and senior managers, sometimes assisted by outside experts. Volunteers may also play an important role. You need to make sure that your NGO has access to the full range of skills required to establish and run the endowment.

#### ***Access to donors***

There is a wide range of potential endowment donors. This range includes national development organizations, international development organizations, governmental development agencies, international and local foundations, international and local businesses, and individuals. You need to know how many of these donors are located in your area. You also need access to them. Very often, NGO Board members are a good source of contacts because they have prior relationships with representatives of these groups.

Some endowment donors require that you raise matching funds in order to qualify for the endowment. This means that you need continuing access to **other** donors even after you have secured an endowment commitment. For example, A.I.D. and the Government of the Dominican Republic granted an endowment to the Instituto Superior de Agrícola (ISA or Superior Institute of Agriculture). As part of the endowment agreement, the Institute had to secure from other sources one peso for every three pesos in endowment funds. This worked well because the Institute had close linkages with local business and civic leaders, and these linkages provided access to the matching funds.

### ***What funding you have now***

Having several sources of income — contributions and grants as well as contracts and fees — is generally an organizational strength. It exposes you to less risk if you lose one of your sources. It also indicates that your NGO can attract funds from a variety of donors and clients. This shows potential endowment donors that people value your organization and its services. It is very rare that an endowment will provide all the income your NGO needs. A diverse funding base will increase your financial self-reliance. It will also help you pay for endowment start-up costs.

### ***Capacity for an initial investment***

Establishing an endowment always costs money, even when the process is relatively easy. There are costs for staff time devoted to various tasks in researching endowment potential, developing the plan, and carrying it out. This is true even if many tasks are performed at no cost by Board members and volunteers. You may also have to pay experts for advice on special matters. Depending on your environment, you may have to pay legal fees, licensing or registration fees, and bank fees. If you have limited money to invest in this process, you need to think carefully about spending it on trying to start an endowment.

## ***External Factors***

Your environment will affect your ability to establish and maintain an endowment. While you cannot control environmental factors and characteristics, you can work on identifying and understanding them. This will help you develop strategies to reduce any constraints that may exist. It will also help you understand international donor policies about endowment investments in your country.

### ***Laws, policies, and regulations***

Your country's economic laws, policies, and regulations as well as those related specifically to endowments will affect your ability to attract endowment funds and to establish and maintain the endowment. There may be rules about what kind of organizations can have endowments, registering the endowment, managing endowment funds, investing the funds locally or abroad, using investment income or principal, taxes and tax exemptions, and reporting on the fund. Some countries may require that the legislature enact a separate law for each endowment. This could take considerable time and might affect your decision to pursue this kind of funding. Some countries limit opportunities to invest abroad and bring the interest back home or to maintain foreign currency accounts in local banks. If local rules conflict with donor policies, it will be hard for you to negotiate an endowment grant.

### ***Economic climate***

The economic climate has a lot of influence on the feasibility of an endowment. A stable economic climate will attract foreign donors and increase the likelihood that local donors have sufficient funds for donations. If NGOs are required to retain their principal in local currency or local institutions, a stable climate will result in reliable interest from the endowment. An unstable climate increases the risk both for the donor and for the NGO. For exam-

ple, EAP in Zamorano, Honduras invested its principal in government bonds. Because of economic changes, the value of those bonds decreased by 60 percent. This means the school is getting less income than it expected. This experience has delayed the establishment of the endowment for FHIA, also in Honduras, because of donor concern about the effectiveness of the investment.

### ***Availability of donors***

Some international donors work only in certain countries, and the availability of local donors varies greatly from one country to the next. Most donors specialize in certain program areas, such as health, agriculture, or education. You will have to investigate the availability of donors in your area that support your kinds of programs. You also need to remember that not all donors, international or local, will provide endowment funds. Each donor has its own policies and rules about making grants. Therefore, it is not enough simply to identify donors. You will also have to determine whether or not the donors operating in your area are willing and able to grant endowments.

### ***Competition from other NGOs***

You may be competing with many other NGOs for endowment funds. Even if there are willing donors available, your chances of attracting funds may depend on the number of other NGOs also soliciting those funds. If there is competition in your area, you will have to convince the donors that your NGO is more deserving of their support. It may take time and effort to develop a successful solicitation strategy.

### ***Costs***

In addition to the initial investment described above, an endowment may involve continuing costs. You may have to pay an annual fee to the institution or individual managing the fund. You may have to spend staff time preparing reports to the donor or government agencies. The donor may require you to pay for an external audit of the endowment every year. If the endowment is small, the income you receive may not be enough to justify these costs.

### ***Conditions imposed by the donor***

Some donors provide endowment funds with few restrictions. Others impose special conditions. Some insist that you raise matching funds and will release money only gradually, as you meet your matching obligation. Some restrict endowment grants to local or foreign currencies. Depending on the local laws and economic climate, these kinds of restrictions could affect your ability to use the endowment funding. Some require that one of their representatives monitor the fund and its operation, which means that your NGO will be subject to some external oversight. Some demand that you leave all the interest in the investment for a certain number of years, thus making the principal grow. During this period, you get no financial benefits from the endowment. Some permit the use of endowment income only for designated purposes. You may need money for other purposes. While you can negotiate with donors regarding certain aspects of their endowment grants, you cannot control their policies. What you can do is make sure that funds flowing into your NGO meet your organization's main objectives and can be managed by the resources available to you.

## ***How Much Work Is It?***

Even if your organization is strong and there are few external factors that limit your opportunities, you need to consider carefully the amount of work involved in starting and maintaining an endowment. Knowing what you have to do will help you decide whether or not your NGO should pursue an endowment. Part II describes the tasks in more detail. Here is an overview which will help you decide about moving forward in the next section of this manual:

- Identifying and coordinating people who will carry out certain tasks, such as legal research, investment research, donor research, contacting donors, soliciting funds, developing the plan, monitoring expenditures, managing the endowment fund, and reporting
- Collecting and analyzing detailed information
- Defining the endowment purpose
- Setting the financial goal, based on an analysis of funding sources and the organization's needs
- Completing the legal, banking, and other arrangements necessary to start the endowment
- Developing a detailed implementation plan to raise funds
- Developing an endowment proposal
- Identifying and overseeing a qualified fund manager
- Putting the endowment plan into action
- Monitoring progress
- Monitoring the use of funds
- Maintaining relationships with donors and local officials.

## **Making The Decision: Should Your NGO Pursue An Endowment?**

You know what an endowment is. You understand some of the internal and external factors that can affect your ability to get endowment funds. You are aware that it will take a lot of work to establish and maintain the fund. Now is the time to decide whether or not your NGO should try to raise endowment funds. This section of the manual will guide you through the decision-making process.

### **Finding Out The Basic Facts**

Before you start making your decision, collect some basic information about your environment and your own organization. If you decide to pursue an endowment, you will refine your information base in Part II. The basic facts will help you assess your endowment opportunities. Staff, Board members, and volunteers can participate in collecting this information. Be sure everyone writes down the findings so they can be shared with others.

#### **Laws, policies, and regulations**

Here are the main questions you need to answer:

- Is there a government policy about NGO endowments? If so, what are the key points of this policy?
- What specific steps do you have to take to establish an endowment? What do they cost?
- What are your investment options? Are you restricted to investing in government securities? Can you invest abroad?
- In what currency can the endowment be based? Local currency or dollar-based?
- Are there any limits on interest rates?
- What is the average rate of return you can expect? On a variable basis or a fixed return basis?
- Are there any steps you have to take every year to maintain the endowment, like submitting reports or paying registration fees? What do they cost?
- Are there any limits on the size of NGO endowments?
- Are there any restrictions on how you can spend endowment income?

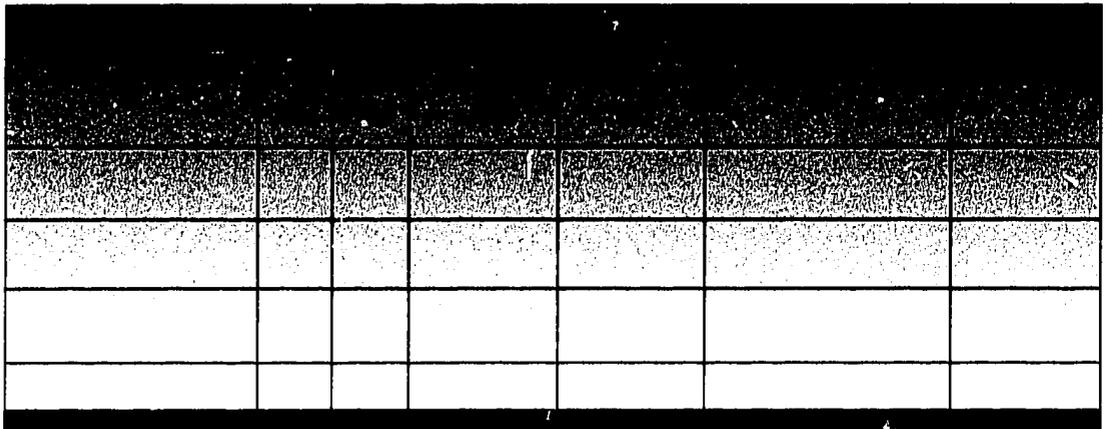
Consult with knowledgeable people in your community to see if there are other questions you should address.

When you have collected the information, prepare a summary list showing factors that **encourage** or make it easy to establish an endowment and factors that **inhibit** or make it hard to establish an endowment:

**Endowment donors**

Find out which donors operating in your area have given endowment funding to other NGOs or have policies permitting them to grant endowments. You can get this information by talking to donors, reviewing their literature, and consulting with other NGOs that have experience in soliciting endowment funds. Your Board members may be very knowledgeable about donors operating in the area, so you should consult with them in conducting this research.

Summarize the information you collect on the following table:



For **Policy**, put a checkmark (✓) in the “Yes” column if the donor’s policy permits endowment grants. Put a checkmark in the “No” column if the policy prohibits endowment grants. If you don’t know, leave the columns blank.

For **Prior Endowments**, put a checkmark in the “Yes” column if the donor has granted endowment funds to NGOs in your area. Put a checkmark in the “No” column if it has not. If you don’t know, leave the columns blank.

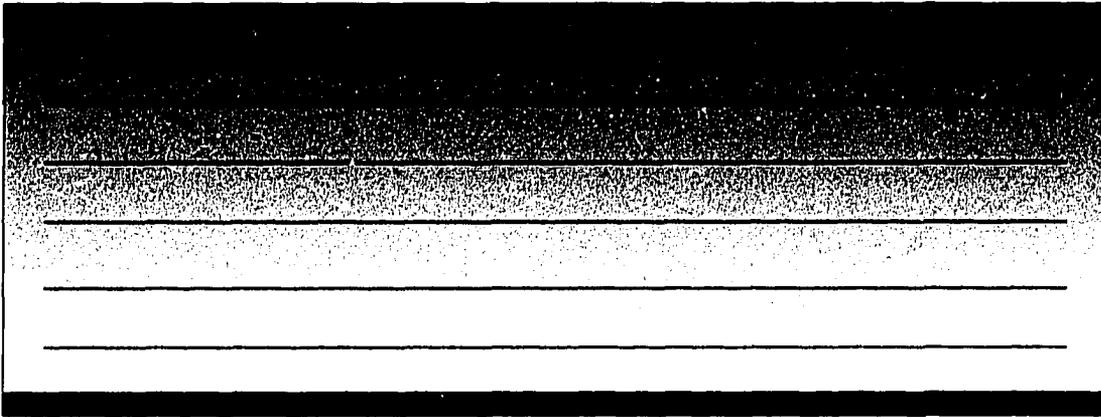
For **Program Area**, enter the donor’s target program area, such as health, agriculture, or education.

Fill in the **Amount** column only for those donors that have given endowment grants. If a donor has given more than one endowment grant, enter the range of amounts granted (such as \$25,000-\$500,000).

***Endowment history and experience from the donor perspective***

Your ability to attract endowment funds may be influenced by the prior experience of endowment donors in your country. If NGOs receiving funds have managed and spent them well, donors may be willing to make additional investments. If the economic climate or other factors have resulted in devaluation of the principal, or if NGOs have not done a good job in using and managing their endowments, donors may be unwilling to make additional investments.

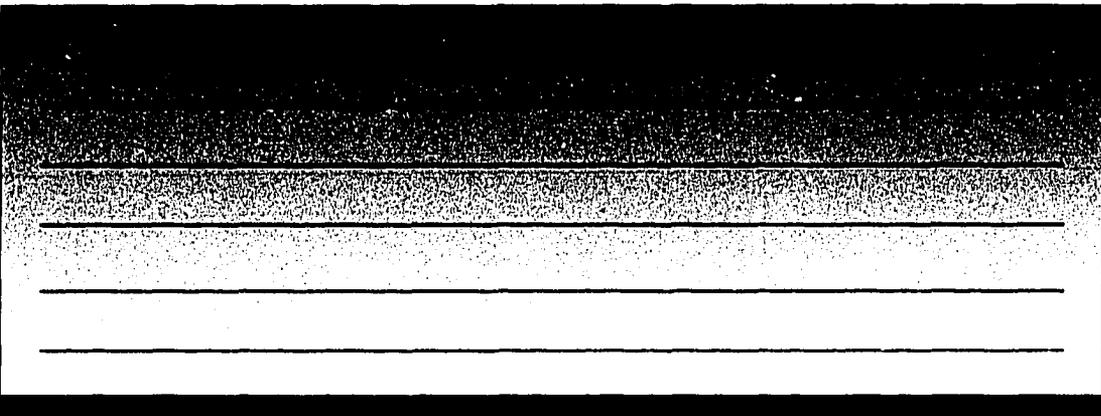
Find out what you can about donor experience with other endowments and summarize the key points for later review and discussion:



***Endowment history and experience from the NGO perspective***

You also need to know how well the endowments have worked out for the NGOs that received them. Was the income worth the time and costs? Was the income as high as expected? Were there any problems in maintaining the value of the fund? Did the endowment discourage other donations? Did the endowment help the NGO expand its programming, or were there too many limits and conditions on the endowment? Was it easy to manage the endowment? How did the endowment change the organization?

Find out what you can about NGO experience with other endowments and summarize the key points for later review and discussion:



**People who can work on the endowment**

You already know that starting and maintaining an endowment is a lot of work. You need people with a wide range of skills who are willing and able to participate. You can minimize costs by using people who will not charge for their services. Consider all the people available to your NGO — staff, Board members, and volunteers. Find out what skills and abilities they have and use the table below to summarize the results. If you can accomplish the task without paying outside experts, put a checkmark in the “Free” column. If you will have to pay for additional expertise, put a checkmark in the “Must Pay” column.

Developing a fund raising plan		
Preparing proposals and other materials		
Negotiating agreements with donors		
Preparing and filing legal papers		
Managing investments		
Managing income		
Monitoring programs and expenditures		
Preparing reports		
Maintaining donor and government contacts		

**Estimated costs**

You now have some information about initial costs, such as licensing fees, maintenance costs, and annual fees to audit firms or to banks or other financial institutions managing the endowment fund. You also know whether or not you will have to pay for experts to perform key tasks. Summarize this information in the following table, indicating the estimated cost for each item. Put a checkmark in the “**Start-up Only**” column if the item is a one-time cost associated with starting the endowment. Put a checkmark in the “**Regular**” column if you expect to have to pay for the item on a regular basis, such as an annual audit.



**Analyzing The Facts**

You now have enough information to start deciding if your NGO should try to get an endowment. While NGOs everywhere have many things in common, the situation is unique for each one. There is no definite formula for success. What works well for one NGO might not work for another. Conditions that make it easy for one NGO may make it difficult for another. You will have to spend time studying your own situation and deciding whether or not an endowment is the right step for your NGO. You should not be concerned if this process takes a long time. Your NGO is making a very important decision that requires considerable thought and discussion.

A good way to make this decision is to gather a group of knowledgeable people, including staff, Board members, and volunteers, who bring a variety of skills, experience, and viewpoints to the discussion. You might want to work with key Board members in identifying a discussion group. Since this kind of important decision will probably take many meetings, not just one, be sure that the people selected can devote enough time to the process. Before the first meeting, it will help to give each person a set of the worksheets completed above so that he or she can study them in advance. When the meetings take place, it is useful to put large copies of the worksheets on the wall so that people can refer to them easily.

Here are the two main questions you need to answer:

*What are the chances that our NGO can get endowment funds?  
Will the benefits be worth the costs?*

Write the questions on a large piece of paper and put the paper on the wall. This will help keep the discussion on track. In discussing the questions, use the information you already have. If you find that you need additional information, someone needs to be responsible for getting it, and another meeting should be scheduled. Make sure that someone takes notes at each meeting so you can keep track of the decision-making process.

Each question is very complicated. Your chances of getting the funds depend on many things, including donor availability, the status and reputation of your NGO, your ability to raise and manage the funds, the effect of laws and regulations, and the amount of competition you will face. The relationship between costs and benefits also depends on many things, including the size of the endowment you can expect, realistic rates of return, investment options, when and how you can use the income, money management expertise, and the effect of the endowment on your organization.

### ***What To Do Next***

If you conclude that your NGO should not pursue an endowment at this time because of factors that are within its control, you can develop a strategy to improve your chances. For example, if you decide that an endowment is an unrealistic objective right now because you have no long-range plan to show donors your direction or because you lack sufficient management and financial expertise, you can make plans to correct these problems. If your conclusion is based on factors outside your NGO's control, such as policies that prohibit NGO endowments or severely limit your investment opportunities or rate of return, you can save your analysis and discuss an endowment again later when conditions change.

If your conclusion is positive — that your NGO should pursue endowment funding — you can move on to Part II of this manual, which contains practical guidelines.

## **PART II: PRACTICAL GUIDELINES**

### **OVERVIEW OF PART II**

This part of the manual guides you through four stages of starting and maintaining an endowment. The four stages are:

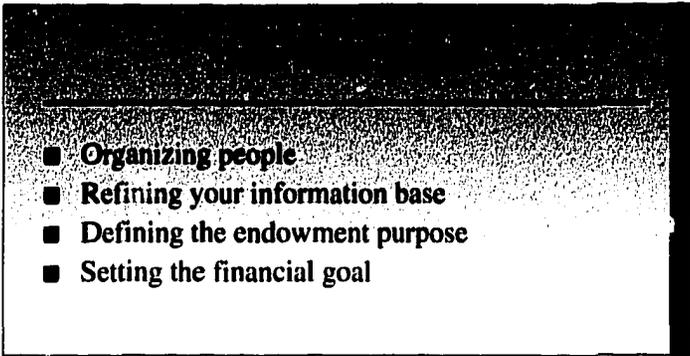
- 1. Getting Started: First Steps** — This stage picks up where your analysis left off in Part I. It involves organizing people to work on starting the endowment, collecting and organizing additional information about the local environment and potential endowment donors, establishing the basic purpose of the endowment, and setting the financial goal. The manual outlines each basic step and suggests sources of information and assistance that may be available to you.
- 2. Developing The Implementation Plan** — This stage results in a detailed plan for raising the funds, carrying out all legal activities associated with the endowment, and developing proposals, publicity materials, and other documents needed. The manual describes the basic elements of the plan and suggests various methods to develop it.
- 3. Putting The Plan Into Action** — This stage requires implementing the plan and monitoring progress. The manual describes how you can use information on your progress to assess and revise your strategies and to increase your NGO's appeal to donors.
- 4. Helping The Endowment Grow** — This stage begins after you receive the endowment funds. Receiving the funds does not mean your job is finished. The manual suggests several activities needed to maintain the health of the endowment fund and to attract additional funding.

## **Stage 1. Getting Started: First Steps**

This stage is primarily an organizing, thinking, and analysis period. There are a number of decisions you have to make before you actually develop your plan for raising endowment funds. These decisions depend on careful analysis of information about your own environment and the range of donors that might support your NGO. In addition, you need to assemble a group of people with the necessary skills and expertise to lead the organization through the endowment development process. Here are the key first steps:

### **Organizing People**

Starting and maintaining an endowment is a complex and time-consuming process. Most successful NGOs organize a central endowment planning group in which at least the following skills are represented: law, investment, financial management, program planning and development, marketing, negotiation with donors, fund-raising, organizational planning, and public relations. The group may consist of any combination of staff, Board members, volunteers, and outside experts. Sometimes there are also subcommittees of the central group, each focusing on a specific area. For example, you could establish a Finance Committee responsible for researching financial laws and regulations, investigating and analyzing investment options, identifying qualified fund managers, and overseeing financial aspects of the endowment after it is established. Donors generally like to see significant Board involvement in the planning group and subcommittees, since this demonstrates the organization's serious commitment to endowment objectives. Also, there may be local laws that require such participation, particularly in financial matters.

- 
- Organizing people
  - Refining your information base
  - Defining the endowment purpose
  - Setting the financial goal

Briefly review the remaining first steps to determine how many people and what kinds of skills you will need to carry out Stage One. Then identify qualified individuals who have the time, interest, and expertise to participate. This group can be the core of your Stage One endowment planning group. As you move through other stages, you can expand the group and/or change its composition as needed.

### **Refining Your Information Base**

In Part I, you assembled a considerable amount of information to help in deciding whether or not to pursue an endowment. Having made the decision, you now need to research many issues much more thoroughly to refine your information base. These efforts must focus on two areas: (1) national policies, laws, and regulations and (2) donor policies and regulations. The key issues are listed below, followed by potential sources of information and assistance. In conducting this research, tasks may be distributed among members of the endowment planning group or assigned to others as appropriate.

#### **1. National policies, laws, and regulations**

##### **Registration**

Some countries require NGOs to register an endowment. This is separate from the registration of the NGO itself. It may be required before you begin to raise funds or after the funds have been raised. You need to find out the following:

- Endowment registration requirements, if any, including documents required (such as a copy of the NGO's Charter or Articles of Incorporation, By-Laws, list of Board members, and annual reports)
- Where to register

- When to register
- Average length of time to get registration approval
- Initial registration fees and standard annual fees, if any.

### **Permissible activities**

Most countries have rules about the kinds of activities in which an NGO can engage. Generally, NGOs are excluded from political, religious, and commercial activities. If your NGO is now operating, you already comply with these rules. However, the rules may differ with regard to endowment funding, and you need to determine if this is the case in your country. If you are planning to start a new NGO, then you will need to research both general NGO and endowment rules.

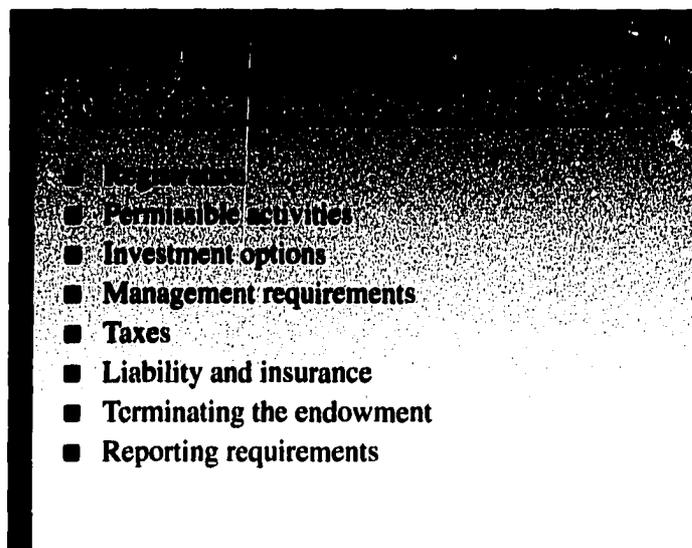
### **Investment options**

In Part I, you developed preliminary information about national policies and regulations regarding investing endowment funds at home and abroad. You now need to collect more detailed information so that you understand exactly how the regulatory environment will affect your ability to generate investment income. This information will also help you define your financial management needs. Here are the main issues to address:

- Can you invest abroad? If so, under what conditions? In what countries? In what kinds of institutions and ventures (simple bank accounts, money market funds, bonds, commercial stocks, stock funds, real estate)? For how long?
- What rate of return can you reasonably expect from foreign investments? How safe are they? How does the rate compare with the inflation rate?
- Can you invest in your own country? If so, under what kinds of conditions? In what kinds of institutions and ventures?
- What rate of return can you reasonably expect from local investments? How safe are they? How does the rate compare with the inflation rate?
- Is there a formula for allocating your investment between local and foreign institutions (such as at least 60% local and up to 40% abroad)?
- Does the government have to approve your investment decisions or play any other role in your investment program?
- Can you start spending investment income right away, or is there a waiting period?
- If you do have options, what is the cost (including management and reporting) associated with each one?

### **Management requirements**

There are often rules and regulations about how the endowment is managed, both programmatically and financially. For example, the Board Finance Committee may be designated by law as the authority responsible for ensuring that the fund is professionally managed and funds are spent appropriately. Alternatively, the law might require financial management by an independent outside firm. There may also be regulations mandating widespread professional and community representation in decisions about how the endowment funds are used. Further, there may be conflict of interest regulations. These would prohibit anyone who might benefit from the funds from participating in fund management and expenditure decisions. For example, if your NGO is going to use endowment funds to make grants to or purchase services from other organizations, representatives of those organizations could not be involved in fund management and allocation. Finally, the law may require regular outside financial audits.



### ***Taxes***

Most countries that encourage NGOs offer certain tax advantages or exemptions to these organizations. In preparing to start an endowment, you need to know specifically how local tax laws affects NGOs in the following areas:

- Taxes on regular contributions
- Taxes on endowment contributions
- Taxes on investment income earned locally
- Taxes on investment income earned abroad
- Taxes on property
- Taxes on imported goods
- Taxes on transactions (such as banking)
- Local sales taxes.

Also, because you will continue to raise funds in an effort to increase the endowment, you need to know if tax laws encourage local individual and corporate donors to contribute to NGOs. In many countries, these donors can deduct contributions from their income when calculating their income tax. This is an important incentive for charitable contributions.

### ***Liability and insurance***

There may be legal penalties for errors made in managing the endowment. Examples of errors include failing to comply with laws about investing abroad, filing reports that are incomplete or late, and using investment income for prohibited purposes. You need to know exactly who is legally responsible for any errors made so that you can protect the NGO and its Board. In some countries, NGOs can purchase insurance to protect against these problems if they arise.

### ***Terminating the endowment***

The endowment could be terminated or dissolved sometime in the future for many reasons. The NGO could go out of business, the principal could decrease markedly in value, or the purpose could be achieved so that the endowment is no longer needed. The question is where the remaining funds must go and who has control over them. In some countries, the government may be the recipient of dissolved endowments. Most donors have a strong interest in the answer to this question, as they, too, may wish to place some limitations on the use and allocation of dissolved funds.

### ***Reporting requirements***

Local laws and regulations may require a variety of reports on endowment funds, such as annual program reports, expenditure records, and outside audits. In some countries, these reports may be part of an annual registration renewal process. You need to know exactly what is required, by which agencies and institutions, so that you can plan to meet the reporting requirements and assess the costs involved.

### ***Costs***

Compile a list of the estimated costs related to the issues and requirements described above. Be sure to include the costs for expertise you might have to buy (such as financial management, legal services, and audits), direct costs (such as registration fees), and the costs associated with management time. These estimates will help you set your financial targets later in Stage One.

The following table lists possible sources for gathering information on national policies, laws and regulations.

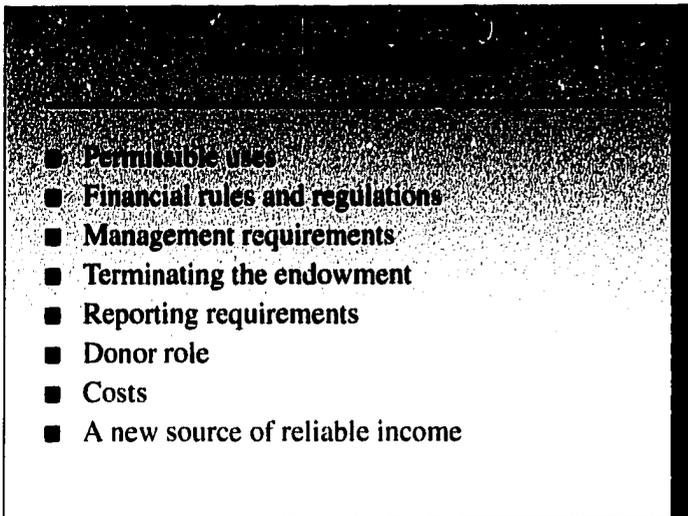
<b>REGISTRATION</b>	✓	✓	✓	✓						
<b>PERMISSIBLE ACTIVITIES</b>	✓	✓	✓	✓						
<b>INVESTMENT OPTIONS</b>		✓			✓	✓	✓	✓		
<b>MANAGEMENT REQUIREMENTS</b>	✓	✓	✓	✓						
<b>TAXES</b>	✓	✓	✓				✓		✓	
<b>LIABILITY AND INSURANCE</b>	✓	✓	✓							✓
<b>TERMINATING ENDOWMENT</b>	✓	✓	✓							
<b>REPORTING REQUIREMENTS</b>	✓	✓	✓	✓			✓			
<b>COSTS</b>	✓	✓	✓	✓	✓		✓			

## **2. Donor policies and regulations**

Policies and regulations differ among donors. If you expect to solicit endowment funds from more than one donor, you may want to make a separate list of information for each one. Many of the categories below are the same as the ones you investigated with regard to your own government, but there are some differences.

### **Permissible uses**

In Part I, you learned that donors may limit their funding to restricted or unrestricted endowments, and that they may have special areas of interest, such as health, education, small business development, agriculture, or the environment. Some permit use of endowment income for operating costs, while others restrict income to direct program costs. Collect additional details about donor funding policies so you are sure exactly what funding opportunities exist for your NGO. This will help you define your endowment purpose in Stage One and develop your endowment proposal in Stage Two.



### **Financial rules and regulations**

Like governments, many donors have their own financial rules and regulations on a variety of financial issues. You will need to compare these requirements with those of your government to make sure that they do not conflict. In this stage, you need specific answers to the following questions:

- Does the donor require investments in a specific country?
- Does the donor limit your investment opportunities, or can you choose among banks, stocks, stock funds, money market funds, real estate, and other ventures?
- Can you spend the investment income right away? If not, how long do you have to wait?
- Does the donor have to approve your investment decisions and/or your expenditures? If so, what are the criteria and procedures for approval?
- Can you spend the principal? If so, when, and under what conditions?

### **Management requirements**

Many endowment donors impose a variety of management requirements as a way of protecting their investment in your NGO and ensuring that the funds are managed and used properly so that they reach the planned beneficiaries. In deciding whether or not to make a contribution, these donors will look closely at your organization to make sure you have the right structures and procedures in place. You need to understand the requirements fully so that you can demonstrate your NGO's ability to meet them.

Here are some of the typical management requirements imposed by donors:

- The Board must represent the community and/or contain a range of professional skills related to the NGO's management and programs.
- The NGO must hire a professional fund manager, either locally or abroad, to manage the endowment fund.
- The Board must appoint a Finance Committee that actively oversees the professional fund manager and the use of endowment funds by NGO management.
- The NGO must arrange for an independent financial audit every year and submit the audit report to the donor.

### **Terminating the endowment**

In the terms of the endowment gift, the donor may stipulate what happens to the fund if the endowment dissolves. In some cases, the NGO may have to return any unspent funds to the donor. You need to understand these conditions in advance, compare them with those of your government, and make sure that you can meet the requirements of both.

### **Reporting requirements**

Like governments, donors typically require a variety of reports on endowment funds, such as annual program reports, expenditure records, and outside audits. Some donors have more extensive reporting requirements. Knowing exactly what these are will help you plan to meet them and assess the costs involved. Often, donors require reports in a very specific format that may differ from the one your government requires. In these cases, you will have to spend effort on presenting the same information in two different ways. Be sure you recognize this in developing your cost estimates.

### **Donor role**

As a condition of their endowment contribution, some donors take an active role in endowment management. The conditions of the endowment might state that a donor representative will serve on the NGO's Board or on a Finance Committee. They might state that the donor must approve investment strategies and decisions, review and approve plans for spending endowment income, or participate in evaluating endowment-supported activities. Donors also sometimes require recognition in publicity about the endowment and the activities it supports. These kinds of issues can affect your organization in many ways, and you need to assess options for responding to them.

### **Costs**

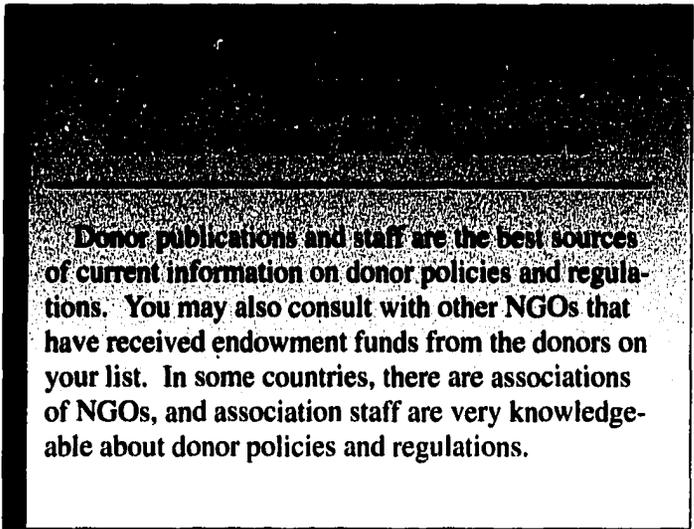
Compile a list of the estimated costs related to the issues and requirements described above. Be sure to include the costs for expertise you might have to buy (such as financial management, legal services, and audits), direct costs, and the costs associated with management time. These estimates will help you set your financial targets later in Stage One.

## **Defining The Endowment Purpose**

How does your NGO plan to use the endowment funds? To start a new program? Expand current programs? Begin activities in a new geographical area? Give grants to other organizations? Invest in community-based programs? Increase its administrative and management capacity? Fund staff training programs? Fund general operating costs?

Answers to questions like these will determine if you are seeking restricted or unrestricted funding. The answers will also help you determine if your endowment objectives are consistent with local laws, which may restrict the kind of activities in which you can engage, and with the interests of potential donors. Further, a discussion about purpose will help you assess the potential effect of the endowment on your organization and plan for the changes that may take place.

This is an ideal discussion for the central endowment planning group. At this stage, you do not need a long, detailed description of proposed uses. The objective is to develop a simple statement of purpose to help set the financial goal and form the basis for developing the endowment statement or proposal.



**Donor publications and staff are the best sources of current information on donor policies and regulations. You may also consult with other NGOs that have received endowment funds from the donors on your list. In some countries, there are associations of NGOs, and association staff are very knowledgeable about donor policies and regulations.**

## ***Setting The Financial Goal***

How much money do you want to raise for the endowment? There are two steps in answering this question.

First, you need to determine how much your endowment-supported activities will cost. If you plan to use the endowment to pay your operating costs, then you must determine your operating costs. If you plan to use the endowment to support new programs, then you must estimate the costs of implementing and running those programs.

Second, you need to determine how large the endowment must be to generate the amount of income you need. This depends on three factors: (1) the rate of return you can reasonably expect, (2) the rate of inflation, and (3) the costs associated with maintaining the endowment, such as fees to financial managers and the costs of staff time required for reporting on the endowment fund.

There is no set rule about how much income makes an endowment worthwhile. However, many NGOs that have experience with endowments say that net benefit — after inflation and costs — should be about four to five percent of the principal. They say that anything less than that is not worth the time, effort, and cost required. This means that if you need to generate \$40-50,000 per year, your endowment must be larger than \$1 million.

Setting the financial goal is a good task for the endowment planning group or a subcommittee. In calculating the financial goal, make sure your assumptions are realistic and conservative. For example, if inflation rates in your country have regularly exceeded 20 percent, do not assume that this rate will drop. If all the information you have collected indicates that endowment maintenance costs will run about \$10,000 per year, do not project less than that on the assumption that you might be able to get some services for free. If the information indicates the rate of return will be 10 percent, do not project a higher rate just because some people predict improvements in the economy. Unrealistic assumptions will result in disappointment. Also, they may indicate to donors that your NGO is not financially responsible and will be unable to manage and use endowment funds effectively.

## **Stage 2. Developing The Implementation Plan**

This stage is an intensive planning period and requires careful thought. Because a different set of skills is required, you may want to look at the composition of your endowment planning group and make some changes. Critical areas of expertise in this stage include fund-raising, donor contacts and relationships, materials development, planning and strategy development, marketing, public relations, and management.

### **Basic Elements Of The Plan**

A detailed implementation plan will help you carry out all the necessary tasks in a logical order. It will also help persuade donors that your NGO understands the process and is taking a serious, business-like approach to strengthening its financial foundation.

#### **General strategy**

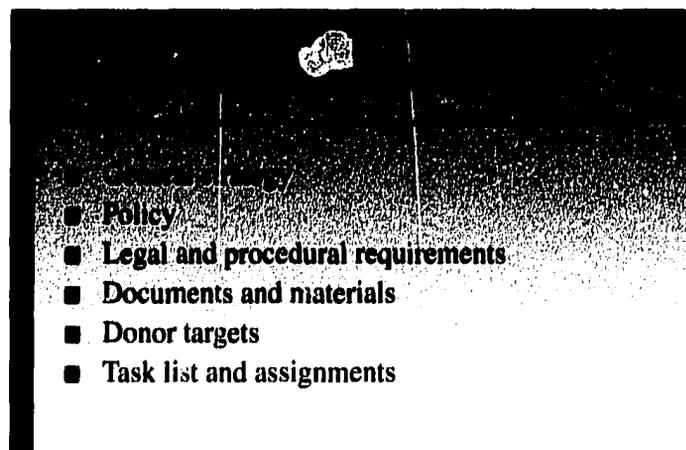
This part of the plan outlines the approach you will use to raise the endowment funds. Typical questions it answers include the following:

- Are you going to pursue one donor or several donors at the same time? If you choose several donors, are you going to use the same approach to each one, or are you going to vary your materials and presentations to match each one's special interests?
- Are you going to collaborate with the government in an attempt to attract international donors?
- How are you going to approach the donors? Are you going to make personal visits first and then submit written proposals, or vice versa?
- Who will represent the NGO in face-to-face contacts with donors, government, and the general public? Board members? Senior staff? Community representatives? A combination of people?
- Are you going to use mass media publicity to advertise your fund-raising campaign, or are you going to approach donors quietly and individually?

#### **Policy**

There are various aspects of endowment policy that should be outlined in the initial plan. This will help maintain the organization's focus on endowment objectives and clarify your purposes with donors. Policy questions include the following:

- Will your NGO accept restricted or unrestricted endowment funds, or both? If both, what proportion of the total fund can be restricted? What kinds of restrictions will you accept?
- Will the NGO take a high-, medium-, or low-risk investment strategy?
- In what countries will the funds be invested? In what types of investments?
- Who will have financial control over the endowment fund itself, making the investment decisions?
- Who will have financial control over endowment interest income?
- What are the specific responsibilities of the Board or its committees with regard to the endowment?
- If the fund is terminated, where will the remaining funds go?
- If you are using the fund to make grants to other organizations, what are the criteria? What size grants will you make? Who makes the decisions about fund disbursements to these organizations?
- What is the donor's role, if any, with regard to the endowment?



### ***Legal and procedural requirements***

This element lists all the formalities you must complete, such as registration, identification of an independent fund manager, setting up bank accounts to receive funds, filing legal papers, or establishing new Board committees.

### ***Documents and materials***

This element of the plan lists the documents and materials you need to raise the endowment funds. The number and type you need will depend on various regulations, as well as on your overall strategy. Typically, every NGO seeking endowment funds needs at least a formal, written proposal describing why the funds are needed, why the NGO represents a good investment by the donor, how the funds will be used, and how they will be managed. Generally, a proposal to a donor should be in the donor's language. For example, if you are seeking funds from A.I.D., you should submit a proposal in English. If you are seeking funds from a foundation in France, your proposal should be in French. Some donors also require that you submit annual reports or other documents describing your organization's past activities, evidence that the community and your beneficiaries support your NGO and its endowment objectives, and independent audits or other financial statements indicating your NGO is financially sound. In addition, you may be required to submit copies of official documents showing that you are properly registered with the government. The government may also require that you submit documents and materials prior to raising funds. If you are planning to use mass media, you will need to prepare press releases, radio spots, or other materials consistent with your mass media strategy.

### ***Donor targets***

The plan needs to identify the specific donor or donors you will approach, as well as the amount of money you will solicit from each one. These decisions are based on the information you gathered in Stage One. In completing this element, list key contact people, with their addresses and telephone or fax numbers.

### ***Task list and assignments***

This element is a listing of every task that needs to be performed to solicit the endowment funds and get the endowment operating. Be as detailed as you can in breaking down each activity so that every step is covered. For example, one of the activities is likely to be preparing the written proposal. Tasks involved in this activity include at least drafting the document, typing and reproducing the draft, reviewing and revising it, and preparing (and perhaps translating) the final document. Each of these tasks may require different people. The same is true for carrying out any legal or procedural requirements. When you have finished the list, look at the skills needed and the people available to you, and then assign each task to an individual or team. You may find that you have to expand your planning group to carry out the implementation plan in Stage Three.

### ***Schedule***

This element involves entering completion dates for each task on the list. Obviously, it is to your advantage to complete all activities as quickly as possible. However, you also need to allow sufficient time for everything to be done correctly.

## ***How To Develop The Plan***

Developing the plan is usually too much work for one person. Many NGOs have used a team approach, involving all members of the endowment planning group. Some have delegated the drafting of the plan to staff members for review and discussion by the endowment planning group and/or the Board. In some cases, the Board has developed the plan on its own with staff assistance. Some NGOs have hired outside experts to work with organizational representatives in developing the plan, or to develop a plan independently for NGO review and approval. The choice you make will depend on what kind of expertise and how much time you have available.

### **Stage 3. Putting The Plan Into Action**

Establishing an endowment is like any other major project your NGO undertakes. You need to assemble people and other resources to carry out the plan, and you need to monitor progress to see if the plan is working. One member of the endowment planning group needs to be in charge in this stage, keeping track of tasks and activities and keeping the group up to date on progress. Often, this is a senior staff manager, but in some cases a Board member with sufficient time available can assume this role. Another individual is usually responsible for keeping detailed records of progress and activities and preparing reports for group review. You can use the progress information in two ways.

First, you can assess the effectiveness of all aspects of your plan. If you find your overall strategy is not working or your materials do not present your case clearly and persuasively, you can revise your plan in midstream, before wasting too much time and effort on things that are not productive.

Second, you can keep donors and others informed. For example, some donors will be interested in supporting your NGO only if you can also gather support from others. A progress report showing a commitment from one donor can therefore be used to leverage funds from another. Also, many donors are interested in the extent to which the community supports your organization. Sometimes, raising money from local individuals — even very small amounts of money — will convince a donor that your organization is worthy of a large endowment gift. Therefore, it is to your advantage to document your progress carefully and completely.

## **Stage 4. Helping The Endowment Grow**

Healthy organizations continue to grow, as do society's needs for NGO services. Even if you achieve your financial endowment target, you will surely find other activities in which your NGO would like to engage. To maximize the endowment's purchasing power, you will want to ensure that you receive the highest possible investment income, and you will want to attract additional funding to increase the endowment principal. There are several things your NGO can do to achieve these objectives.

### ***Manage the fund wisely.***

The authority managing the endowment fund may be a Board group or an outside investment manager. In either case, every NGO must decide how much risk it will take with its principal. In general, high-risk investments offer very high potential rates of return and are therefore very attractive. However, when they fail, the NGO loses. The same is true for investments in unstable political climates, where sudden changes in government or regulations can affect the NGO's ability to maintain and control its endowment funds. The policy element of the implementation plan sets the basic guidelines on investment risk. Both these guidelines and the performance of the endowment should be reviewed periodically to make sure they are serving the NGO's best interests.

Even if you have professional outside fund management, the NGO must still take responsibility for overseeing the manager's performance and making sure that all financial operations comply with laws and regulations. The Board should receive regular reports from the manager and meet with management periodically to review the investment program.

### ***Monitor how funds are being used.***

Standard accounting procedures that track expenditures by source of funds should tell you exactly how endowment income is being used. There are two important reasons to monitor fund use closely.

First, your endowment proposal and funding agreements with endowment donors often specify fund use, even if it is only in very general terms, and you want to be sure that your NGO complies with all the requirements. The success of your attempts to raise additional funds to increase the endowment principal will depend in large part on the reputation for financial responsibility that you establish among donors.

Second, from the NGO's perspective, it is important to ensure that funds are being spent on priority needs. These needs may shift from time to time. Unless the terms of your endowment funding prohibit it, you can change the allocation of endowment income from year to year based on organizational priorities. Therefore, monitoring fund use serves the organization's interests well.

### ***Keep your donors informed.***

Donors generally like to know about how their funding has helped you achieve your NGO's objectives. They appreciate regular reports on your organization's achievements, both organizationally and programmatically, even when these reports are not required under the terms of the endowment agreement. Efforts you make to disseminate information will demonstrate that you recognize the donor's contribution to your organization and take pride in your ability to use the funds well. Your successes may even generate additional gifts. Maintaining donor relationships raises your visibility in the donor community and helps you when you compete for funding with other NGOs.

*We hope this manual has been helpful to you in determining whether or not an endowment will be useful for your organization.*

*We encourage you to explore the ideas and suggestions raised in this manual.*

*We invite you to share any comments or further ideas with us.*

*The Editors*  
**PROFIT**