

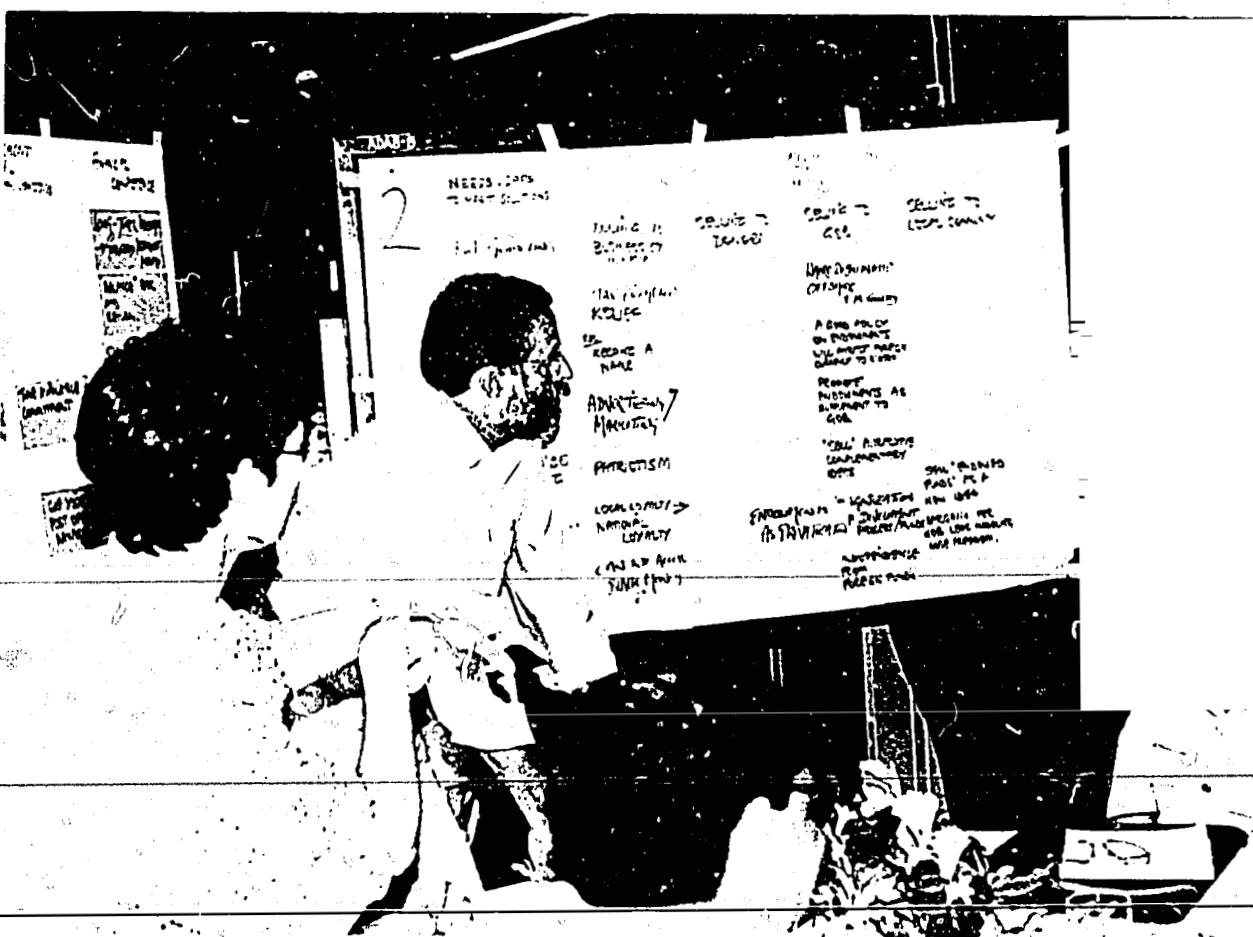
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Options for Sustainability

Report of a Seminar on

Endowments as a Modality for funding Development Work

Dhaka, Bangladesh: 8/9 November 1993



Sponsored by: Swiss Development Cooperation
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Executive Summary

"If grants to NGOs in Bangladesh were cut off tomorrow, NGOs would have to stop functioning. What would donors have to show for the millions that they have spent on projects in the past? There must be a better way to sustain the NGO sector to carry on its valuable work" - K. F. Rahman

This seminar was organised to take a first look at one of the alternatives to grants - namely endowments.

Endowments are one way of funding development activities: in this modality the supporters/sponsors/investors in a development activity (be they from Government, the public, the business sector, external donors, or any others) decide to put money (or other resources like lands and buildings which will produce money) into a fund controlled by a non-profit, non-government entity (often called a Foundation) which has the authority to invest these funds for a regular income to the entity, and authority to spend the funds on the defined development activities either directly, or through grants/loans to other organisations. Such Foundations can be national or local.

This contrasts with the usual way of handling development financing - which is by time limited projects funded through a series of time limited grants, whose renewal is at the discretion of the supporter/sponsor/investor

This is a subject which has not been much discussed either amongst donors, or among non-government organisations in Bangladesh. It is not, however, in principle, a new subject for Bangladesh. Rich people here have for many decades, if not centuries, been setting up endowments in the form of land for village facilities like schools and madrassas, or for orphanages and mosques through the Waqf Endowment system.

This was the first meeting in Bangladesh to look at endowments as a possible funding modality for development programs, and it involved participants from different sectors who would not normally meet in one place - lawyers, bankers, social workers, civil servants.

The seminar provided an overview of Global, then Asian, then Bangladeshi experience in working with endowments. It surfaced concerns and opportunities in this largely unexplored field, and participants were enthusiastic to learn more. They wanted more information, wider involvement of more people in discussions on endowments - particularly the business sector, and the start of lobbying for a supportive policy environment for endowments. At the conclusion of the Seminar a working group was constituted to carry this interest further.

Since we realize that the subject of endowments is a relatively new one for many people in Bangladesh, we have produced two documents as a result of the Seminar - the first is the Report of the Seminar, and the second is a basic Reader on Endowments which provides some key texts..

USAID Dhaka Staff
Reference Library

Report of The Seminar

1. **Overview of Endowed National Foundations as investments in Institution Building**
- by Paul Weatherley (Key Note Paper)
2. **Uses of the Endowment Modality for Development in Asia** - by Richard Holloway, focussing on:
 - National Foundation for India
 - Philippines Foundation for the Environment
 - Trust for Voluntary Organisations (Pakistan)
3. **Uses of the Endowment modality in Bangladesh**
 - BIDS (Bangladesh Institute for Development Studies)
by Matiur Rahman Daly
 - North South University
by Muslehuddin Ahmed
 - Palli Karma Sahayak Foundation
by Ishtiaque Abiduz Zaman
 - The Islamic Foundation
by Md. Muffazal Hussain Khan
 - SHOGORIP (Shosho Gudam Rin Prokolpo)
by Philippe Amé
 - ICDDR/B (International Centre for Diarrhoeal Disease Research)
by Graham Wright
4. **Plenary - Guided Brainstorming on Endowments: Advantages, Disadvantages and Issues Raised**
5. **Small Group Discussions**
 - Group 1 - Legal Profile
 - Financial Risks and Financial Benefits
 - Group 2 - Management and Financial Competencies
 - "Selling" the Concept
 - Group 3 - Conflicts of Interest - inside organisations, with donors/GOB, accountability
6. **Plenary - Report back, Discussions, and Summing Up**
7. **Appointment of a Working Group to continue the growing interest in Endowments**
8. **List of Participants**

1. Overview of Endowed National Foundations as investments in Institution Building

- by Paul Weatherley

Preamble

The most relevant kind of endowment is an endowment for a National Grant-Making Foundation. Endowed National Foundations (ENFs) are a new and interesting concept in funding development work. Much of the experience to date and the interest has been generated by organisations working in the field of Environment, and those interested in ENFs should track the experience of such organisations.

Definition

An Endowed National Foundation is defined as:

A legally constituted national institution with an independent Board of Directors that:

- seeks, receives, and manages funds from multiple sources for specified activities;
- disburses the funding to implementing entities, including some of all of the following: government agencies, NGOs, local community groups, academic & research institutions, and/or the private sector; and,
- is structured to be accountable to the interested parties (investors, government, civil society, local communities).

Channel of Funds

As a channel of funds, ENFs can:

- regulate flow of money, keeping some or all as an "endowment"
- ~~how to a defined purpose for the use of the funding, i.e., function as a "trust"~~
- disburse funds in the manner of a charitable foundation by making grants in support of a broadly or narrowly defined purpose

Governance

If ENF governance is carefully structured, ENFs can work to empower society: to do this they need to be truly independent institutions with a mandate from society.

To gain a mandate from society ENF governance must emerge from an open creation process

To keep a mandate ENF governance must have high credibility

To use a mandate ENF governance should be open to cooperation with all entities, including government agencies

Mandate from Society

ENFs which have a mandate from society can:

- offer creative approaches,
- foster innovative partnerships,
- build capacities that are sustainable,
- transform relationships, and
- establish new possibilities.

Institution Building

As institution-building institutions, ENFs can:

- stabilize flows of funds
- build capacity to absorb increasing amounts of funds
- diversify funding sources
- promote cooperation between governmental and non-governmental sectors
- offer examples of transparency
- build an ethos of public service
- grow without displacing anyone else

Current Situation

ENFs are currently predominantly in Latin America, but with a few in other places (Philippines, Bhutan, Madagascar, Tanzania). They have principally been formed for Environmental purposes, and the principal actors to date have been USAID, the Global Environment Facility, and GTZ.

To date more than 300 million US\$ have been committed to ENFs, and the following trends and common characteristics have been observed:

- multiple donors to one ENF
- subaccounts used for gifts whose use is restricted

Pitfalls

There are, however, pitfalls to avoid:

- do not clone First World models of philanthropic foundations which are inherently elitist - started by wealthy families which continue to control the endowment's activities
- do not copy earlier approaches to institution building, such as agricultural research
- do not delay getting wide participation in the ENF until it is formed and capitalized
- do not ignore conflicts of interest at all levels from personal to institutional - deal with them early on.
- do not substitute one dependency for another

Questions for Each Actor to ask

Each Sector involved in ENFs must ask themselves certain questions:

Governments

- Will a ENF drain skills from the Government?
- What policy changes are needed?
- How will the Government exercise oversight?

NGOs and local communities

- How can they participate in governance?
- How can they participate in grant making?
- How can they ensure transparency?

Donors

- How can they help without dominating?
- What accountability is appropriate?
- What restrictions should they place on funds?

Choices must be made

At each stage of the process of setting up a ENF, choices must be made

Choice of Purpose

- explicit, narrow purpose (a "trust")?
- long term goal with flexibility? or
- empowerment?

Choice of Method of disbursement

- support for existing institution?
- grants to intermediaries (NGOs)? or
- grants to local communities?

Choice of Exercise of oversight

- internal to existing institution?
- under new institution?
- independent board?

Choice of Movement of funds

- debt swap (fund leverage)
- non-project grant (policy leverage)
- direct grant (US\$?)

Choice of Process of creation

- via technical assistance
- via NGO consortia
- with maximal local participation

Choice of Management of assets

- separate from grant program
- coordinated with grant programs
- aggressive attempt to leverage private investments

Bodies of experience

The following bodies of experience already exist:

- ~~USAID's environmental endowments~~
- Tanzania AIDS Orphan Trust
- "Community" foundations in U.S.
- "Community" foundations outside U.S.
e.g. Puerto Rico Community Foundation
West Africa Rural Foundation

The Ford Foundation has been involved in this field for decades and still is. It has great experience.

Principles

- take advantage of a lack of precedent and therefore explore innovation
- begin and continue with the maximum participation of a broad spectrum of elements of society
- seek and maintain a high media profile
- seek a mandate from society itself & design the ENF so that the governance structure renews itself and thus maintains its mandate
- design ENFs with at least two "centers of gravity" to create internal checks and balances
- recognize the need for training — of board members, grant administrators and investment managers
- recognize that the character will evolve over time as the ENF proves itself
- be open to ideas and be patient — no one has all the answers

2. Examples of Endowments for development from Other Countries in Asia

by Richard Holloway

- National Foundation for India
- Philippines Foundation for the Environment
- Trust for Voluntary Organisations (Pakistan)

National Foundation for India

This Foundation, registered as a Trust in India in 1992, is intended to be a professionally managed grant making body for India to promote awareness of issues relevant to nation building, generate alternative thought processes and paths to development, and strengthen and consolidate non-government effort.

It arose out of a Workshop on Indian Philanthropy sponsored by Ford Foundation in 1985. Its trustees are very eminent Indians in their

private capacity, and it started with contributions of 1 crore Rupees, which have now grown to 10 crore Rupees. It expects contributions from the Indian business community, public sector corporations, non-resident Indians, and foreign donors/international foundations.

It has exemption from the Income Tax Act of 1961, and has agreed to invest all of its funds in specified public sector banks in India from which it will receive approx. 10% interest.

Its fields of work are: Population Stabilization, Employment and Livelihoods, Urban Environment, Conflict Management, Education and Literacy.

The problems it has faced to date are: finding an Executive Director, and demands by non-resident Indians that their contributions should be used for development work in their own home areas. The Trustees have refused such demands.

Philippines Foundation for the Environment

This Foundation, registered in 1991 as such with the Philippines Securities and Exchange Commission, is intended to be a grant making organisation to provide support to Philippine non-governmental organisations and other groups tackling conservation and sustainable development challenges in the Philippines.

It arose from the success of a "debt for nature" swap between one Philippine NGO "The Haribon Society" and USAID in 1988. USAID agreed with a wide coalition of Philippines NGOs and a US NGO "World Wildlife Fund USA" to fund a further "debt for nature" swap which eventually led to a fund of approx US\$ 10.2 million worth of Philippines pesos. The Foundation's trustees are from NGO coalitions, NGOs, the Church, the business community, USAID, and the Govt of the Philippines.

The foundation is a tax free institution, and invests its funds by agreement with the Philippines Government in Central Bank Notes with interest similar to Philippines Treasury Bills which provides interest at approx. 15%.

Its special fields of work are : conservation of biological diversity, community based resource management, institutional support and training.

Special problems that it has faced are: to develop a consensus for the foundation amongst a wide range of NGOs through out the Philippines. it has 3 regional Advisory Committees. It's new Board undertook a 10 day study tour of Grant Making Foundations in the US, sponsored by Ford Foundation, to help them understand more about running a foundation.

Trust for Voluntary Organisations (Pakistan)

This Trust was registered as a Foundation under the Charitable Endowments Act of 1890 in Pakistan in 1990 with the intention of being an organisation to strengthen non-governmental and community based organisations, to institutionalise an indigenous merit based grant making capacity in Pakistan, and to promote institutional reform through decentralizing programming for social sectors.

It arose from a grant of US\$ 30 million given by USAID to the Government of Pakistan in 1988 for assistance in meeting foreign exchange needs and to furnish the incentive to capitalize a non-Governmental Special Development Fund. It is a Foundation set up and gazetted by the Govt. of Pakistan and it has a Board of people appointed by the Govt. of Pakistan from the private Sector, and Govt. of Pakistan officials ex-officio.

It is a tax free institution as long as it invests its money in Govt. of Pakistan bonds which provide an interest of about 13.5%.

Its activities are in the fields of: improving the status of women, improving the competences of NGOs, improving the competences of community based administrative units, participatory development in the social sector.

The special problems that it has faced have been concerned with the selection of officials for the board by the GOP and the exact meaning of "ex-officio" when dealing with officials of the GOP. Moreover, it has found difficulties in a lack of formal separation between the policy making and executive functions of the Board.

3. Use of Endowment in Bangladesh

The speakers in this section were asked to describe their endowments along the following format:

- Purpose
- Size and Source of Funds
- How and Where the money is invested
- Governance structure
- Legal Status
- Financial, management and tax issues
- Program and/or Grant Focus and Criteria
- Percentage of Budget covered by Trust Fund income
- Special Insights/Special problems

BIDS (Bangladesh Institute for Development Studies) by Matiur Rahman Daly

BIDS set up by the Act of Parliament in 1974, is intended to be the premier Bangladesh institution for undertaking and promoting study, research and dissemination of knowledge in the field of development economics, demography, and other social sciences in Bangladesh.

It was originally the Pakistan Institute of Development Economics and moved to Dhaka in Dec. 1970.. Its Board of Trustees are headed by the Minister of Planning and include many Government officials and academics. From 1974 to 1983 it was paid through the Annual Revenue Budget but in 1983 the GOB recommended an Endowment grant of Tk10 crore which actually arrived as Tk 5 crore in 1983, Tk 3 crore in 1989 and Taka 2 crore in 1990. It has also received endowment grants from external donors for its library.

Its Endowment fund is invested in fixed deposits which used to provide an interest from income of 15% but this has delined recently. BIDS is encouraged to, and does earn money for itself from sale of its services through commissioned research.

BIDS was created to undertake specific research whose findings were supposed to be used in formulating the policies for socio-economic development of the Bangladesh.

The problems of BIDS at the present are that the costs of running the establishment - particularly staff costs which have had to follow the new pay scale of the Government in 1991 - are not covered by the

income from the investment. Income from commissioned research can make up a part of the deficit, but this runs the risk of compromising the objectives of the organisation. It is, at present, borrowing from its reserves.

North South University by Muslehuddin Ahmed

The North South University is an operation of the Foundation for the Promotion of Education and Research which was registered as a Society under the Societies Registration Act of 1860. Its purpose is the creation and running of a Private University in Bangladesh (and it is the first private university in Bangladesh). It was enabled to carry out this purpose by the passing of the Private Universities Bill in 1992 and approval of its Charter by the GOB later the same year.

There is a long history of educational endowments by zamindar families for primary, and secondary schools. There had never before, however, been an endowment for a university. The 16 founder Board members are academics, business leaders, and retired civil servants. The University meets its running costs from fees. The endowment is a reserve fund, which, it is hoped, will be augmented by donations from other business people and foreign donors.

The Endowment funds are invested in deposit schemes in private banks, and in GOB Savings Certificates. Private contributions to the Endowment, since 1992, are no longer tax-free.

Its fields of study are Business Administration, Computer Science, and Economics, Economics, Environmental Studies, and Sociology. It will soon start an Institute of International Development and Environment.

The problems that it has faced to date have been the delays in starting since it had to await an Act of Parliament, and the difficulties that the private contributions to the Endowment are not tax free.

Palli Karma Sahayak Foundation by Dr. Ishtiaque Abiduz Zaman

This Foundation, registered in 1990 as a non-profit private company under the Companies Act of 1913, is intended to be a major organisation for helping the poor, the landless and the assetless in

rural areas to enhance the quality of their lives through the provision of credit.

It arose from a long process of dialogue between the GOB and the World Bank about setting up an independent Foundation for poverty alleviation. In the end, the GOB decided to set this Foundation up itself. It was given an Endowment of Tk 40 crore by the GOB which has been paid in full in 5 installments. It expects to raise funds from other sources, but to date has only received GOB funding apart from its own income on investment (which has raised its endowment to Tk 45 crore)

Its Governing Body are composed of 4 people nominated by the GOB, and three people elected from the partner organisations -i.e. those who are working with the PKSF.

It has applied for, but not yet received exemption from tax, and invests its funds in long term fixed deposits in public and private banks at high interest rates.

Its field of work is credit to NGOs, VOs, and GOs which it makes available at 2% interest for on-lending at 16% interest. It is also able to help with other kinds of assistance for training, advice and institutional building activities.

To date it has loaned money to 85 organisations, 84 of which are NGOs. Until recently the Managing Director was a GOB civil servant, and thus was liable to be transferred to other GOB positions which caused problems. Recently this regulation has been changed so that the MD can be selected from any private individual as well.

The Islamic Foundation by Md. Muffazal Hussain Khan

This Foundation was created by Act of Parliament in 1975 and is intended to be a centre for the promotion of basic Islamic values and ideals, and also to be the manager of the Zakat Fund which was set up in 1982 by Government Ordinance to be a national fund to which Islamic people could make their zakat contributions.

The Islamic Foundation arose from a merger of the former Islamic Academy and the Baitul Mukarram Society. Its trustees are mostly from the GOB service with the Minister of Religious Affairs as Chairman of the Board. Other members are nominated by GOB from MPs and Islamic

Scholars. Its funding comes from the revenue budget of the GOP, the rents of shops beneath Baitul Mukarram Mosque, and the Zakat Fund.

It has exemption from Income tax and receives about Tk 10 crore yearly from the sources mentioned above which is not invested, but spent on projects in the fields of Imam Training, Publications, Mosque based non-formal mass education, and libraries. Zakat funds are spent on health care to the poor, self-employment projects, and to rehabilitate converted Muslims.

Problems have been the diminishing amount of money collected by the Zakat Fund, the late release of GOB funds, irregular collection of Baitul Mukarram shop rents, and a shortage of three Board members.

SHOGORIP (Shosho Gudam Rin Prokolpo) **by Philippe Ame**

SHOGORIP is an organisation designed to provide storage facilities for small and medium farmers for their grain at harvest time, against which a loan through commercial banks can be provided until the farmer decides to sell his grain.

It is at present a project of the Government of Bangladesh (GOB) Ministry of Agriculture, and the Government of Switzerland (GOS) Swiss development Cooperation. It is intended to become a Public Trust, and a Deed of Trust has been drawn up, but this has not yet been implemented.

The project arose from a previous experimental project called BASWAP. The Trustees of SHOGORIP will be nominees from the GOS, GOB and the Bangladesh Bank, and it will start with a fund of Tk 3 crore, half of which comes from GOB and half from GOS. Other donors, or individual godowns, are able to further contribute. The reason the project is going for an Endowed Trust is to get sustained support from the GOB, and to make sure that the managing institution is autonomous.

It will look for income tax exemption and will probably invest its funds both abroad and in Bangladesh, but this has not yet been decided. The interest earned on the endowment will be used to pay for a core team of SHOGORIP staff. The Endowment has to be set up and working before June 1994. The Swiss will continue to provide technical assistance until June 97.

Special problems are likely to come in conflict of interest between the ex-officio appointees of the GOS and GOB, and in getting all the arrangements agreed in time.

**ICDDR/B (International Centre for Diarrhoeal Disease Research)
by Graham Wright**

This International Centre, established by GOB Ordinance in 1978, has as its main purpose research into and dissemination of information about diarrhoeal diseases, nutrition and MCH/FP. It also provides facilities for training in the Centre's fields of work. Through resolutions of the Board of Trustees it established two endowments - the first, institutional endowment in 1985 as a source of flexible funds, funds for one time emergencies, and for cash-flow management problems, and a second, in 1991, to finance the provision of free hospital services.

The ICDDR/B succeeded the Cholera Research Laboratory which was created in 1960. It has a range of international Trustees from the Health and Research fields and from the GOB. Its usual funding as an international non-government organisation comes from grants from a wide range of bilateral, multilateral and private organisations, but it has established two endowments for sustainable income and is seeking contributions to them. To date it has raised \$ 2.2.m on the first (towards a target of \$30 m) from Foundations, Corporations, and philanthropists, and \$ 150,000 on the second (towards a target of \$ 10m) from local philanthropists and fund raising events. These are placed in both offshore and local time deposits in Banks.

Specific experiences of ICDDR/B are that it is very important to educate the Board of Trustee members about the work of the organisation that they govern. To this end they ask Board members to spend some days at the centre prior to Board meetings.

4. Plenary - Guided Brainstorming on Endowments:

This was the first participatory session in which peoples opinions were sought. It was facilitated through the "card and chart" technique. (please see photographs on the covers). The statements shown below are statements made by participants during the course of the Seminar. The first session tried to identify Advantages and Disadvantages of Endowments, and then to look at what Issues were thus raised.

Advantages

1. Sustainability

- Endowments will allow organisations to become financially sustainable
- Endowed organisations can become organisationally sustainable (they can plan long term, and attract long term better quality staff)

2. Independence

- Endowed organisations can involve themselves in difficult policy issues
- they will be free from donor control
- they can be innovative where they want to be
- they can set their own priorities

3. Efficiency

- Endowed organisations will not spend a great amount of time in donor negotiations
- They will free up donor time spent in administering grants

4. Autonomy

- development funding will be indigenized through an endowed foundation
- Bangladesh will own the endowed foundation

5. Further Support

- An endowed foudation will be able to attract funds from other parties

- it will be able to attract support of other kinds from a wide variety of people

Disadvantages

1. Participation and Ownership

- Contributors to an Endowed Foundation may want to meddle in the management
- contributors may be ethically suspect people
- there may be difficulties moving from donor control to Board control, particularly if a donor wants a seat on the Board
- there may be difficulties with Government interference if Government wants a seat on the Board
- There may be trouble between Board members
- Donors may not want to give up control

2. Financial Risks

- Inflation will decrease the real value of the endowment
- the capital may be depleted over time if it is not managed carefully
- if the economy in which the capital is invested is weak, then the endowment is fragile
- frequent changes in interest rates will jeopardize the fund management. If they go down it will hurt the endowment considerably
- the available budget for the foundation will vary according to the interest rates available
- there are limited investment opportunities in Bangladesh

3. Management and Financial Competence

- the Board members may not understand poverty alleviation programs
- Board members may not know how to be Board members
- Quality leadership for Boards of foundations is in short supply
- Boards may set up stifling bureaucracies
- The existing tradition is for "elites" to manage Boards.
- Scarce fund management experience to cope with sudden needs for tied up funds

4. Fund Availability

- Endowments need very large amounts of money - which may be in short supply

5. General Interest

- Tradition of organised philanthropy scarce in Bangladesh
- No incentive through tax benefits for private or corporate philanthropy
- External donors little interested in endowments
- Little public appreciation for Board members.

Issues raised

1. Legal Profile

- Are the laws within Bangladesh adequate for Endowments?
- Why are there no tax incentives for charitable giving?
- What happens to the funds if the Foundation fails?
- What role should the GOB play in the furthering of endowments?
- What guidelines for trustees are required?

2. Fund management Capability

- Is there sufficient expertise in fund management in Bangladesh?
- What training is available in fund management?

3. Financial Risks

- What is the advantage of offshore investments versus local investments?
- What kinds of investments can be thought up for NGOs?
- Is the Taka vulnerable long term?

4. Various

- Why have existing endowments not registered in the capital markets?
 - Can the Waqf Commission be activated to greater effect?
 - Can endowments use black money?
 - How long should an Endowed national Foundation last?
 - How can we ensure donors' interest in endowments?
-

5. Small Groups

Following the plenary, the facilitators identified specific fields for concentrated discussion. In each case the groups were asked to identify :

- the problems,
- possible solutions,
- what else is needed to find a solution

Group 1

Topics: Financial Risks and Benefits, Legal Profiles, Termination and Dissolution, Tax issues

1. Financial Risks and Benefits

Problems:

- Investment opportunities are limited
- the Local currency is not fully convertible
- the earnings of the endowment are restricted by the size of the capital
- the budgets of the foundations are restricted by the size of the earnings
- higher earnings, higher risks

Possible Solutions

- invest in bonds of foreign governments
- push for full convertability of the host country currency
- have a mixed and diversified investment portfolio
- gradual growth of value of endowment through careful fund management.

What else is needed?

- access to skilled investment managers
- other ways of increasing income apart from investments (User fees, sale of services, cost recovery, seek further grants)
- models for fund management to be available for managers of Endowed Foundations
- increase in understanding of issues involved through a working group on Endowed Foundations

2. Legal Profile

Problems

- Identification of appropriate legal identity

Possible solution

- Identification of relevant laws
- Reform of laws

What else is needed

- Clear legal guidelines
- Standard procedures

3. Termination/Dissolution

Problem

- who owns the fund if the Foundation fails?

Possible solution

- Must be clearly defined in advance in the charter/constitution of the Foundation

What else is needed

- Nothing noted

4. Tax Issues

Problems

- The social sector does not (and should) receive the same kinds of incentives and tax-breaks as the industrial sector
- Donor policy leverage is not exerted on behalf of the social sector as with the commercial private sector

Possible solutions

- World Bank and others should lobby for social sector policy reform

What else is needed

- Make sure appropriate specialities are represented on the Bard (lawyers, NBR officials etc)
- Clarify situation ahead of time so no-one has nasty surprises

Group 2

**Topics: "Selling" the Concept
Financial and Management Competence**

1. "Selling" the Concept

The "selling" was interpreted in four ways:

- selling to the business community
- selling to the donor
- selling to the Government
- selling to local communities

1.1. Selling the idea of endowments to the business community

Problems

- At present there is no tax exemption or relief for contributions to charitable foundations

Possible solutions

- Contributions to an endowment offer an opportunity to some people to clean, to clear, or to keep their name
- Contributions to an endowment could offer advertising/ publicity advantages
- Contributions to or help in setting up an endowment offers an opportunity for patriotism, and for moving from local charity to national development
- Contributions to an endowment offer opportunities for whitening black money

What else is needed

- Change in the law about tax relief which requires lobbying by influential people
- Information about ways in which black money can be utilised

1.2. Selling the idea of endowments to Donors

Problems

- Some donors have rules and regulations under which they are constituted which are unhelpful to the idea of endowments

Possible solutions

- Better inform donors about endowments
- Create impressive boards for foundations, with financial expertise
- Create "partial" endowments - i.e. some part of the organisation is still handled by grant funded projects
- Promote endowments as a logical part of privatization
- Promote endowments as a logical implication of participation and sustainability - both important words to donors
- Promote endowed funds as a new idea which is very relevant to today's development situation

What else is needed

- An information package for donors explaining the advantages of endowments

1.3. Selling the idea of endowments to the Government

Problems

- Offer to promote endowments as a useful supplement to GOB work, provided that it is not circumscribed with Government regulations

Possible solutions

- A good policy on endowments will attract foreign currency to Bangladesh
- Endowments should be seen as a supplement to GOB efforts, not a competitor
- Endowments means indigenizing development aid, and making it Bangladeshi
- Endowments once created would have a large measure of independence from foreign donor conditionality
- Endowed national Foundations are a way of serving the country and being patriotic

- Endowed funds are likely to be banked in Government investments
- Promote endowed funds as a new idea which is very relevant to today's development situation

What else is needed

An easy and clear description of endowments to explain the concept to Government

1.4. Selling the idea of Endowments to a local community

Problems

- none noted

Possible solutions

- Zakat funds could be mobilized for local endowments
- Local endowed foundations would have local trust and accountability
- Locally endowed foundations might attract matching funds from Government or Donors
- Locally endowed foundations will have local members of the Board
- Locally endowed foundations can have clear local objectives

What else is needed

- nothing noted

2. Management and Financial Competence

2.1. Management Competence

Negatives

- Boards must not micro-manage - their responsibilities should be clear.

Positives

- Board Members must agree to be accountable and transparent to the public
- Board members need clear guidelines since involvement in Boards is not well known amongst Bangladeshis

- Board members must be chosen carefully to be people who are committed and are prepared to make time available
- Peoples representatives (representatives of the beneficiaries of the Foundation) should have places on the Board
- There must be clear guidelines about the "hiring and firing" of the Board members and the Chief Executive

What else is needed

- Training programs for Boards N.B. CRWRC are perhaps the most experienced organisation in this field in Bangladesh

2.2. Financial Competence

Negatives

- Returns are subject to risk. High returns usually mean high risk
- Many people think that the income to the Foundation is the interest on the money invested, instead of understanding that you must cut the rate of inflation from the interest rate to give you the net (and real) interest rate.

Positives

- Long term investments with guaranteed interest rates are to be preferred
- Put a financial "guru" on the Board
- Make use of the financial knowledge of your Bank Manager concerning investments
- In Rural Areas use the knowledge of your post office manger concerning investments in post office bonds
- It is necessary to do some homework if you are becoming involved in investments - it is not simple or easy

What else is needed

- Some review of what financial instruments are available
- Some information on how foreign funds can become indigenous funds, and thus free of government restrictions

Group 3.

Topic: Conflicts of Interest

3.1. When representatives of NGOs which might be the recipients of grants from the Foundation are on the Board

- representatives from amongst NGOs, Beneficiaries, donors and others should be on Boards
- Boards will clearly have the mandate to decide policy issues
- No board member should have any veto power
- The Executive Director should be member secretary of the Board

Further needs

- The Board should set up an Expert Financial Committee with authority to invest, and should set up a program committee with authority to decide what should be funded
- The Board should be an odd number

3.2. When representatives of the Government are on the Board

- The Board should have representatives from NGOs, Donors, Beneficiaries and others as well as Government
- No member of the Board should have veto power
- The Executive Director should be appointed by the Board to manage the Foundation with a clear mandate

Further needs

- A publicly transparent audit system
- An external review and evaluation of the Foundation should take place every five years

6. Plenary - Follow Up Discussions, and What Next?

Follow Up Discussions

1. Where to invest?

A complex discussion ensued on the value of investing in Bangladesh or outside the country. Bankers referred to present high rates of return in 8 year Defense Savings Certificates, 5 year and 3 year Bangladesh Savings Certificates, Fixed Deposits and Postal Savings Certificates which can yield approx. 13.5% p.a.

Rates have not always been so high, and will probably not continue so high, however. Yet, on the other hand, external rates, while lower, are in convertible hard currencies.

2. Which Laws to use?

Lawyers present talked of an unused law on the Statute Books of Bangladesh called the Charitable Endowments Act of 1890. It has never been used. If it was used (and it was the law under which the Trust for Voluntary Organisations in Pakistan was set up) the Government would have to set up a Charitable Endowments Commissioner.

What Next

1. More information

- Endowments are an interesting idea, but we do not have enough information
- A Working group should be set up from this seminar to continue the interest and explore the options
- the working group should be broad based (lawyers / bankers / NGOs / Govt)
- Those who already work in endowment funds should exchange information
- The working group should study and document local investment options
- The working group should identify some organisation to further research ideas about endowments more fully

2. Wider involvement

- This seminar is just a start. The idea needs to reach a wider audience, involving particularly business and industrialists, and tax authorities
- the Donors' LCG Sub-Committee on NGOs should have a presentation on endowments

3. Advocacy

- The Finance Minister should be lobbied to ease prohibitions against tax relief for charitable contributions
- the World Bank and donors should be lobbied to convince them that tax relief for charitable giving is compatible with increasing the country's tax base.
- the Government should be lobbied to increase their understanding of endowments and urged to seek to develop a policy environment which will foster the growth of endowed foundations.
- The report of this Seminar is an important first tool

7. Working Group

The following working group was agreed as a start:

Betty Steinkrauss - Canadian International Development Agency (CIDA)

Kajal Chatterjee - SHOGORIP

Philippe Ame - SHOGORIP

Ariful H. Bhuiyan - NGO Bureau of GOB

Matiur Rahman Daly - BIDS

D. Das Gupta - Banque Indo-Suez

Adv. Fida Kamal

Richard Holloway - PACT/PRIP

The First Meeting of this group will be at the offices of PACT/PRIP (House 56, Road 16, Dhanmondi) on Dec 1st 1993 at 3.00 p.m.

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Bindu Sharma (PACT Washington),**

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**Matiur Rahman Daly
BIDS (Bangladesh Institute for Development Studies)**

**Muslehuddin Ahmed
North South University**

**Ishtiaque Abiduz Zaman
Polli Karma Shahayok Foundation**

**Md. Muffazal Hussain Khan
The Islamic Foundation**

**Philippe Ame
SHOGORIP (Shosya Gudam Rin Prokolpo)**

**Graham Wright
ICDDR/B (International Centre for Diarrhoeal Disease Control)**

8. Participants

1. Mr. Paul Weatherley (International Resource Person)
Environmental Consulting
1212 NY Avenue N.W.
Suite 345
Washington D.C 20005, USA
2. Ms. Bindu Sharma
Regional Director for Asia
PACT Communications/Technical Services
1901 Pennsylvania Avenue N.W.
Suite 501
Washington D.C 2006, USA
3. Mr. Richard Holloway
Director
PACT Bangladesh/PRIP
House 56, Road 16 New
Dhanmondi R/A., Dhaka 1209
4. Dr. Dee Jupp
Director
SHOGORIP
5/4 Iqbal Road, Block-A
Mohammadpur, Dhaka-1207
5. Barrister AHM Lutful Rahman (Shahjahan)
Advocate, Supreme Court of Bangladesh
The Law Associates
Ispahani Building (1st Floor)
14/15 Motijheel C/A, Dhaka
6. Mrs. Betty J Steinkrauss
Coordinator of the Fund
Canadian International Development Authority
House 16-A, Road 48
Gulshan Avenue, Dhaka
7. Br Ekatma Chaitanya
Ram Krishna Mission
Ram Krishna Mission Road
Dhaka

8. Mr. D Das Gupta
General Manager
Banque Indo-suez
47 Motijheel C/A
Dhaka
9. Mr. Gunnar Lofberg
Resident Representative
Radda Barnen
House 55, Road 5
Dhanmondi R/A, Dhaka-1209
10. Dr. Ishtiaque Abiduz Zaman
General Manager
Polli Karma Shahayok Foundation
House 23, Road 16 New
Dhanmondi R/A, Dhaka-1209
11. Mr. Kajal K Chatterjee
SHOGORIP
5/4 Iqbal Road, Block-A
Mohammadpur, Dhaka-1207
12. Mr. Kamaluddin Akbar
RDRS
House 62, Road 7A
Dhanmondi R/A, Dhaka-1209
13. Mr. Kh. Morad Hossain
Ministry of Agriculture
Govt. of the People's Republic of Bangladesh
Bangladesh Secretariate, Bhaban No. 4, Dhaka

14. Mr. Kh. Rais Ahmed
American Express Bank Ltd.
18-20 Motijheel C/A
Dhaka

15. Mr. M.A.Halim
Ministry of Agriculture
Govt. of the People's Republic of Bangladesh
Bangladesh Secretariate, Bhaban No. 4, Dhaka

16. Mr. Ariful Haque Bhuiyan
NGO Affairs Bureau
Matsya Bhavan, Ramna, Dhaka

17. Mr. Mossaraf Hossain
RAPPORT Bangladesh
98 Malibagh TV Avenue
Dhaka, Bangladesh
18. Mr. Md. Muffazzal Hossain Khan
Islamic Foundation
Baitul Mukarram
Dhaka
19. Ms. Nasreen Sattar
ANZ Grindlays Bank
2 Dilkusha C/A, Dhaka
20. Mr. Peter Nesbitt
CARE-Bangladesh
House 63, Road 7A
Dhanmondi R/A, Dhaka-1209
21. Mr. Philippe C Ame
SHOGORIP
5/4 Iqbal Road, Block-A
Mohammadpur, Dhaka-1207
22. Mr. Mujibul Huq
UNICEF
House 73, Road 5A
Dhanmondi R/A, Dhaka-1209
23. Mr. Ron Audette
CARE International
Road 7A, House 63
Dhanmondi R/A, Dhaka-1209
24. Mr. Sujit Kumar Barua
Japan Embassy
Block-A, Road 27, Plot 110
Banani, Dhaka
25. Mr. Mohiuddin Ahmed
Delta Life Insurance Co
90-91 Motijheel C/A
Dhaka

26. Mr. M A Zaman
USC Canada in Bangladesh
House 22/18, Khiljee Road
Mohammadpur, Dhaka-1207
27. Mr. Jadab Chandra Ghosh
Grameen Sheba Sangstha
Betila, Manikganj
28. Barrister Fida Kamal
Advocate
64 Purana Paltan
Dhaka
29. Mr. Maniruzzaman
PACT Bangladesh/PRIP
House 56, Road 16 New
Dhanmondi R/A, Dhaka-1209
30. Mr. Gary Robbins
USAID
US Embassy Building
Baridhara, Dhaka
31. Ms. Andra Carrothers
PACT/Asia
NO. 34A, Danau Jempang Blok BIII
Pejompongan 5738425
Jakarta Pusat, Indonesia
32. Mr. S A Karim
SDC
House 31-B, Road 18
Banani, Dhaka
33. Mr. Evelyn Lee
Canadian High Commission
House 16-A, Road 48
Gulshan, Dhaka
34. Mr. Walter Jutzi
SDC/N
House 31-B, Road 18
Banani, Dhaka

35. Mr. Graham N Wright
ICDDR,B
Mohakhali, Dhaka
36. Zafrul Karim
North South University
House 76, Road 21, Block-B
Banani, Dhaka
37. Mr. Moslehuddin Ahmed
North South University
House 76, Road 21, Block-B
Banani, Dhaka