



AN EVALUATION OF THE  
**ENTERPRISE FOR THE AMERICAS ACCOUNT**  
AND THE  
**FONDO DE LAS AMÉRICAS DEL PERÚ**



**An Evaluation  
of the  
Enterprise for the Americas Account  
and the  
Fondo de las Américas  
del Perú  
Final Report**

**Evaluation Team:**

Gabriel Quijandría Acosta, National Consultant  
John N. Shores, International Consultant

**Contracted by:**

World Wildlife Fund, Washington DC

**Technical Director:**

Esteban Brenes, Program Officer  
Center for Conservation Finance, WWF

Field Work  
**July 2003**

Final Report  
**September 2003**

## Acknowledgements

We would like to thank the Secretariat for the Enterprise for the Americas Initiative at the United States Agency for International Development and the Center for Conservation Finance at World Wildlife Fund - US for the opportunity to participate in this evaluation. We hope this report will be regarded as a contribution to the growing body of knowledge regarding the role of national foundations in the support of sustainable development and the promotion of child survival and child development.

We extend a special thanks to the talented people of the Fondo de las Americas del Peru. Their energy and dedication for their work was impressive. Their enthusiasm never faded even we peppered them with questions and frequent requests for documents and files from the archives.

We want to thank the non-profit organizations and other institutions involved in the projects supported by the Fondo de las Americas del Peru. As implementers of the actual projects, they provide the technical and managerial expertise to make these activities a success. All of them freely shared their time and experiences with us in an open and collegial manner.

Many Peruvian institutions that were not even directly involved in the projects of the Fondo de las Americas del Peru also welcomed us into their offices and shared their observations with us. To all of these groups, we say thank you.

And finally, we want to thank the many community leaders and participants in the projects supported by the Fondo de las Americas del Peru. Their community spirit and willingness to work for the betterment of their neighborhoods, their provinces, and their country was an inspiration.

Gabriel Quijandria Acosta  
John N. Shores

Funding for this external evaluation came from the United States Agency for International Development under the USAID/LWA (ECOSNATURE); Funding Source 415 41500000 6014 Agreement No. LAG-A-00-99-00048-00.

# Table of Contents

Acknowledgements.....	i
<b>I. Executive Summary.....</b>	<b>1</b>
Key Recommendations.....	2
<b>II. Background and Objectives.....</b>	<b>4</b>
Background .....	4
Objectives of this Evaluation.....	5
<b>III. Methods .....</b>	<b>7</b>
<b>IV. Findings, Conclusions, and Recommendations .....</b>	<b>8</b>
A. Vision, Program Strategy, and Project Results .....	8
Findings.....	8
1. Legal and Normative Requirements.....	8
2. Vision and Program Strategy .....	8
Grantmaking.....	9
Partnering.....	9
Organizational Effectiveness .....	9
Co-Financing, Program-Related Investment, and Other Financing Tools.....	10
Dialogue and Consensus Building.....	10
Action on National Policy.....	10
Regional Networks .....	10
Communications.....	10
3. Project Results.....	11
Ex Post Evaluation of Project Impacts.....	13
Sustainability .....	13
Conclusions.....	14
Recommendations .....	15
B. Governance.....	16
Findings.....	16
1. Legal And Normative Requirements .....	16
2. GOP and USG Participation and Support .....	17
Consultation and Review of the Framework Agreement.....	17
"Capture" of FONDAM.....	18
3. Board Structure and Operation .....	18
Ad Honorem Service by NGO Members.....	19
Transparency and NGO Eligibility.....	20
Award-Making in Compliance with Framework Agreement and Bylaws .....	20
Proposals Exceeding \$100,000 .....	20
Dirimente .....	21
4. Membership and Member Participation.....	21

Composition of the Board .....	22
Presidency of the Board .....	23
Orientation for New Board Members .....	24
Conclusions .....	24
Recommendations .....	24
C. Asset Management and Fundraising .....	26
Findings .....	26
1. Legal and Normative Requirements .....	26
The Escrow Account .....	26
Creation of an Institution .....	26
Tax Exemptions .....	26
Fiscal Agent and Investment Supervision .....	27
2. Sinking Fund versus an Endowment .....	28
Conclusions .....	29
Recommendations .....	29
D. Administration and Budget Management .....	30
Findings .....	30
1. Legal and Normative Requirements .....	30
2. Grant Administration .....	30
Grant Application Process .....	31
Grant Supervision and Monitoring .....	31
3. Budget and Overhead .....	32
4. Organization, Staff, and Facilities .....	33
Grants Management Services .....	34
5. Administrative Policies .....	34
Conclusions .....	34
Recommendations .....	35
E. FONDAM and the Peruvian Context .....	36
Findings .....	36
Conclusions .....	37
Recommendations .....	38
<b>V. Suggested Changes in the Authorizing Documents .....</b>	<b>39</b>
A. Changes at USG Congressional Level .....	39
B. Changes at the Level of the Parties .....	39
C. Changes at the Board Level .....	39
D. At the Discretion of the Government of the Republic of Peru .....	40
<b>Annexes .....</b>	<b>41</b>
Annex 1. Terms of Reference .....	41
Annex 2. List of Persons Contacted .....	42
Annex 3. Projects Visited .....	44
Site Visits .....	44
Office Visits .....	44
Annex 5. Financial Highlights .....	49
Investment Performance and Administrative Overhead .....	49

Annex 6. Organizational Structure of FONDAM .....	51
Annex 7. General Information about FONDAM .....	52
Annex 8. Acronyms and Abbreviations .....	55
Annex 9. Analysis of the Language Related to Vision and Purpose .....	56
Background .....	56
Conclusions .....	58
Recommendations .....	58
Continuing Debate.....	58
Annex 10. The FONDAM Web Site .....	60
Strengths .....	60
Weaknesses.....	60
Annex 11. The Five FONDAM Grantmaking Mechanisms.....	62
Current Mechanisms .....	62
"Concurso de Proyectos" or Project Competition .....	62
Thematic Project Competition .....	63
"Actividades y Proyectos Especiales" or Special Activities and Projects.....	63
"Cofinanciamiento" or Co-Financing .....	63
Future Mechanisms .....	63
"Proyecto Eje de Desarrollo" or Axis of Development Project.....	63

# I. Executive Summary

This evaluation is one in a series of evaluations of the institutions created under the Enterprise for the Americas Initiative (EAI) in participating countries throughout the Americas. In this evaluation, the institution (Fondo de las Américas del Perú or FONDAM) that was created to implement the initiative, and the EAI account itself, are treated simultaneously.

In 1997, the Government of the United States of America (USG) and the Government of the Republic of Peru (GOP) signed a series of agreements to put into motion the process of establishing the FONDAM. An eight-member Board of Directors was appointed and FONDAM began operations in 1999 with a capital endowment of \$22.8 million derived from a buyback arrangement involving bilateral debt owed by the GOP to the USG.

FONDAM has followed the legal and normative requirements of the establishing agreements and is respected as an institution known for its transparency and fairness. The Board of FONDAM is actively engaged in governing the institution. Members of the Board voluntarily contribute considerable time and effort to their roles. The GOP and USG Representatives on the Board are active participants.

The Board has maintained appropriate supervision of the initial capital and the appointed fiscal agent. The financial assets of FONDAM have been invested responsibly with appropriate attention to risk and return. FONDAM is currently operating as a sinking fund with a timeline of approximately ten more years.

FONDAM has a professional and dedicated staff, excellent financial and grant monitoring systems, and exercises rigorous attention to detail. External audits have consistently found FONDAM to be in compliance with generally accepted accounting standards.

FONDAM has awarded 121 grants totaling more than \$7.7 million from its establishment in 1999 through the date of the evaluation in July 2003. Grants are awarded to non-governmental organizations (NGOs) to support their environmental and child development projects. Proposals are evaluated competitively and awards are made on the merits. A successful effort has been made in streamlining the proposal review process since Juan Gil Ruiz assumed the leadership role as the Executive Secretary of FONDAM in 2001.

In less than five years of operation, FONDAM has achieved a great deal: a well-respected institution; transparency and openness in its transactions; relative smoothness in leadership transitions; a significant portfolio of development projects; excellence in grant administration; and a qualified and motivated professional staff.

Although secondary to the achievements highlighted above, the evaluation did find some areas for concern in FONDAM's operations. One area is the question

of whether FONDAM could and should do more to strengthen its grantmaking portfolio along the lines of environmental sustainability. At issue is what is intended by the language in the establishing documents and what steps FONDAM might take to sharpen and focus the grants portfolio. A second area is the question of how FONDAM is perceived in the broader Peruvian society, for example, the perception by some NGOs that FONDAM is not seen as being part of the Peruvian environmental and child development communities. This latter issue is basically an image problem. But these issues may affect FONDAM's ability to attract further resources. Two expansion mechanisms under consideration (offering grant-management services to other funders, and seeking additional capital to create an endowment) could be affected by these perceptions.

## **Key Recommendations**

FONDAM should take its strategic planning exercise to the next step and address the question of where it wants to go as an institution. What does it want to achieve? How will FONDAM have a measurable impact on the protection and management of natural resources while encouraging child survival and child development? What should "success" look like ten years from now? This is a good time to involve a broader group of stakeholders in the process to develop that vision, long-term program strategy, and financial plan.

FONDAM should be commended for successfully institutionalizing its commitment to continuous improvement. It is crucial that these improvements be applied to an organization that is focused on the proper vision, which is the purpose of the recommendation immediately above. It is also important that FONDAM view itself as a learning organization (providing capacity-building opportunities for Board and Staff, testing its different grantmaking mechanisms and the projects they fund, evaluating the results, and replicating successes in future projects).

FONDAM should explore new ways to engage the NGOs as partners in sustainable development and be careful to avoid viewing them merely as the contractors who implement projects.

FONDAM should reduce the frequency and intensity of grant monitoring and supervision. Quarterly is more frequent than necessary and more intensive than required by the establishing documents. It is a burden to the project implementers and to FONDAM. Reducing the frequency and intensity should result in cost savings for the NGOs and for FONDAM with no loss in project quality.

FONDAM should continue to explore new fundraising opportunities, strategic alliances, partnerships, and co-financing measures to extend its useful life, expand grantmaking capabilities, and enlarge project results. A crucial question is whether the creation of an endowment is feasible.

FONDAM should implement a plan to have the presidency of the Board change on a regular (perhaps annual) basis.

FONDAM should develop a formal communications program. Key tasks include: (1) involving a broader group of stakeholders in developing the FONDAM vision and long-term strategy, (2) addressing the perception that FONDAM is "captured" by either the Government of Peru or USAID, (3) improving the image of FONDAM as a member of the Peruvian environmental and child development communities, and (4) engaging the NGOs and communities as partners in sustainable development.

Clarify that the authority to approve the larger projects (those projects exceeding \$100,000) resides either with (1) the Representatives of the Parties, or (2) the Parties themselves, as described in Article VII of the Framework Agreement.

Through an appropriate mechanism, request that the GOP consider appointing (1) the Executive Secretary of CONAM or the Director of INRENA instead of the Minister of Agriculture; and (2) the Director of the General Directorate for Children and Adolescents instead of the Minister of Health, as the two GOP representatives on the Board.

## II. Background and Objectives

### Background

In 1997, the Government of the United States of America (USG) and the Government of the Republic of Peru (GOP) signed a series of agreements to put into motion the process of establishing the Fund of the Americas Account in Peru. The first agreement, the “Program Agreement by and between The Government of the United States of America and The Government of the Republic of Peru concerning the Sale, Reduction, and Cancellation of Certain Loans” (the “Program Agreement”) signed on 26 June 1997 authorized the creation of the Fondo de las Americas del Peru (FONDAM). FONDAM was formally created by the “Agreement between the Government of the United States of America and the Government of the Republic of Peru concerning the Establishment of an Americas Fund and Administering Board” (the “Framework Agreement”) signed on 24 December 1997.

The eight-member “Directorio” or Board of Directors of FONDAM is composed of two GOP members, one USG member, and five representatives from the non-governmental organization (NGO) community in Peru, as stipulated in the Framework Agreement. The USG representative was designated by the State Department in 1998. The Peruvian members of the Board are appointed by a cabinet-level process. The GOP members of the founding Board for FONDAM were appointed by Resolucion Suprema 689-99-EF on 06 February 1999. The appointment process continued with the selection of five NGO members by March 1999, but their official appointment did not happen until 21 July 1999. Although the official announcement of the NGO appointments had not yet been published, the full Board was seated on 24 March 1999, which becomes the official date of FONDAM’s launch into operation.

The initial capital for FONDAM came from a debt buyback arrangement in which Peru bought back \$177 million of its USAID and Public Law 480 bilateral debt at a cost of \$57 million. The USG waived all subsequent rights to repayment after the GOP deposited the local currency equivalent of \$22.8 million in an escrow account. This escrow account became the initial capital of FONDAM. An important difference between this Americas Fund and most of the Americas Funds established in other countries is that FONDAM was fully capitalized at the start. An operating capital equivalent to USD\$ 22,844,235.65 was available for investment and grantmaking from day one.

FONDAM currently uses four distinct grantmaking mechanisms: (1) an annual competitive Request for Proposals (RFP), (2) competitive RFPs targeted on specific themes (such as the Eco-Enterprise competition in 2002), (3) co-financed projects, and (4) competitive small grants (under \$10,000). A fifth mechanism (called an “Axis of Development Project” or “Proyecto Eje de

Desarrollo" in Spanish) is currently under consideration; no competition has been announced under this mechanism yet. Under all four of the active grantmaking mechanisms, FONDAM has made 121 awards for approximately \$7.7 million as of June 2003. (Annex 11 includes a brief description of each grantmaking mechanism.)

FONDAM awards most of the grant monies during an annual competition. FONDAM announced the first "Concurso" (a contest or competitive examination) on 10 February 2000. The second RFP came on 14 February 2001, and the third on 23 January 2002. The fourth RFP was on 31 August 2002. This fourth Concurso was a special competition for eco-enterprise projects. The annual RFP for 2003 was published on 20 April 2003 and the "profile" qualifying phase was underway at the time of this evaluation.

Based on the 2003 Operating Plan, the main budget categories are approximately \$1,500,000 for competitive grants, \$700,000 for co-financed projects, and \$100,000 for small projects (less than \$10,000 each). Administrative costs, including the annual external audit, are budgeted at \$532,287 -- less than 20% of the total expenses.

## **Objectives of this Evaluation**

This evaluation is one in a series of evaluations of the group of similar Funds of the Americas established in the past ten years. In consultation with the Secretariat of the Enterprise for the Americas Initiative as the client and World Wildlife Fund as the contracting organization, the Evaluation Team agreed to use as a guide the format of the evaluations conducted of the Funds of the Americas in Jamaica and Colombia.

This evaluation basically looks at the Fondo de las Americas del Peru and the Americas Account as one and the same. FONDAM does not currently have any sources of financing outside of the Americas Account. FONDAM is the sole implementer of the Americas Account in Peru, so there is no other institution to evaluate with respect to the Americas Account. The Evaluation Team therefore focused on conducting an institutional evaluation of FONDAM, which encompasses the performance of FONDAM as the agency implementing the Americas Account in Peru.

The purpose of this evaluation was (1) to assess FONDAM's performance as an institution with regard to its effectiveness, efficiency, and sustainability; and (2) to determine whether the legal and normative requirements established for FONDAM were being followed.

This evaluation is intended to be useful to the Government of the Republic of Peru and to the United States Government as the Parties of the agreement establishing the Fondo de las Americas del Peru. It is also intended to aid the Board and Executive Secretariat of FONDAM as they consider steps to adapt and improve their institution. In addition, this evaluation may serve as a

reference for other funds and foundations, and for the designers of new funds and foundations created under the Tropical Forest Conservation Act.

### III. Methods

USAID contracted the World Wildlife Fund to conduct an independent evaluation of FONDAM and the Enterprise for the Americas Account in Peru. Evaluations are required by the EAI legislation. WWF-US contracted an international consultant and a Peruvian consultant as the core evaluation team. The technical director from WWF-US and the acting director of the EAI Secretariat from USAID/Washington also participated on the team as interviewers and as observers providing oversight for the process.

To collect information for the evaluation, the team used a combination of key informant interviews, site visits, and background documentation. The key informant interviews provided a 360-degree view of FONDAM. The team interviewed board members, senior staff, program staff, and administrative staff of FONDAM. To explore the horizontal axis, the team interviewed senior staff of other similar funds in Peru. To explore the vertical axis, the team interviewed a cross-section of funding recipients (the direct “clients” or “customers” of FONDAM) and a smaller sample of organizations and institutions from a broader level within Peru (e.g., the Consejo Nacional del Ambiente or CONAM).

The core evaluation team dedicated two weeks to interviews, office visits, and site visits to collect information and documentation, conduct interviews, and develop a preliminary analysis. Additional time was dedicated to preparing a draft report for circulation, collecting and analyzing comments from reviewers, and preparing a final version of this report.

# IV. Findings, Conclusions, and Recommendations

## A. Vision, Program Strategy, and Project Results

### Findings

#### 1. Legal and Normative Requirements

The purpose of FONDAM as stated in Section I of the Framework Agreement is:

“to promote activities designed to preserve, protect, or manage the natural and biological resources of Peru in an environmentally sound and sustainable manner, while encouraging the improvement of child survival and development in Peru.”

Article V of the Framework Agreement states:

Grants from the Americas Fund shall be used for:

- activities that link the conservation and sustainable use of natural resources with local community development, and
- child survival and other child development activities.

#### 2. Vision and Program Strategy

FONDAM derives its vision and program strategy from the text in the Framework Agreement (above) and its own efforts to shape and explain its mission to Peruvian civil society, especially the NGO's applying for grants. FONDAM conducted an internal strategic planning exercise with the help of a professional facilitator in 2001 and the Board adopted the resulting strategic plan. It is an insightful examination of FONDAM and its operating environment. The vision statement is to “lead in promoting of activities for a sound and sustainable environment and in child survival and child development in Peru.” The mission statement in the strategic plan is identical to the statement of purpose from the Framework Agreement quoted above.

Between 2000 and 2003, FONDAM awarded slightly more than \$7.7 million in 121 grants to support a diverse list of activities in broadly defined environmental and child development areas. Awards included projects dealing with topics such as: hospital waste, infant nutrition, domestic violence, crop diversification, tree planting, environmental education, waste motor oil, water purification, wildlife production, wetlands conservation, and training in environmental management for decision makers. The apparent program strategy has been to select the very best proposals from the very strongest NGOs that qualify under the parameters set by the Framework Agreement and Bylaws.

FONDAM has positioned itself primarily as a grantmaking institution. A national trust fund such as FONDAM has a variety of roles it can play and processes it can adopt, limited only by its legal mandate (including any restrictions), the readiness of its board and senior management, and the broader environment in which it operates. In addition to grantmaking, a trust fund might begin to partner with implementing organizations to expand the scope of projects or develop programs in organizational effectiveness that seek to strengthen the organizations receiving the grants. A trust fund might add other support mechanisms such as co-financing to its grantmaking. A trust fund might start an initiative as the convener of forums that bring together different sectors or elements in the society to discuss important national issues. A trust fund might seek a role in policy dialogue at the national level. A growing number of national trust funds have found it useful to join one of the regional networks of national funds.

These various efforts at diversification broaden the work of a national trust fund. They are examples of adaptive management, in which the national trust fund continually assesses the needs and identifies new opportunities for action. They do not necessarily change the focus or mission of the trust fund, but may change significantly the way the trust fund approaches that mission.

#### Grantmaking

FONDAM sees its primary role as grantmaking. The staff is committed to continual improvement in the grant administration process. They have continued to refine the process and shorten the time that elapses between the application for a grant and notification of the results. They have developed an integrated grant management system to track the important aspects of a project, including the proposal, implementation, re-programming, monitoring, evaluation, and closing stages.

#### Partnering

FONDAM has partnered with other grantmaking institutions to combine funds for specific proposal competitions. FONDAM apparently has not partnered with any grant recipients, for example to create projects that last longer than one grant cycle (limited to 24 months in the rules for the Fifth RFP, currently underway).

#### Organizational Effectiveness

FONDAM offers proposal-writing workshops for NGOs at the proposal preparation stage. Currently all grantmaking is directed at supporting short-term operating projects, implemented by NGOs, that deliver benefits and services to target clients. There is currently no program that focuses on strengthening the ability of NGOs to implement those projects and deliver those benefits and services, but the 2003 Operating Plan mentions "institutional strengthening" of NGOs as a part of the strategy statement and "capacity building" as one of the lines of action for 2003.

### Co-Financing, Program-Related Investment, and Other Financing Tools

FONDAM is currently implementing a program that uses co-financing to combine efforts with other public and private institutions. Currently there is no program using program-related investment or venture capital funding to invest in income-producing projects that would then return the capital and earned interest to FONDAM, perhaps creating a rotating fund.

### Dialogue and Consensus Building

FONDAM has not undertaken a role as a convener of a national forum or as a consensus builder.

### Action on National Policy

FONDAM has not taken any direct actions in the national policy arena, but has funded at least one project by an NGO that focused on educating decision-makers with respect to environmental issues.

### Regional Networks

FONDAM joined RedLAC (the Network of Environmental Funds for Latin America and the Caribbean) but has not been particularly active in this association nor present at the annual meetings. FONDAM has had exchange visits with the Funds of the Americas in Chile and in El Salvador. In addition, FONDAM has signed collaboration agreements with the three other major national environmental funds in Peru.

Other than the grantmaking that is mandated in the Framework Agreement, FONDAM is under no obligation to undertake any of the other roles described above, nor any other role. These roles or similar roles are available to FONDAM if they would help advance the FONDAM mission. One consideration is FONDAM's limited time horizon. The fund currently operates as a sinking fund, with a projected life span of only ten years before the capital will be exhausted. (The precise sunset date depends on the rate of return from investments, the size of grantmaking and operating expenses each year, and the success of any future fundraising efforts.) Undertaking any new roles to advance the mission must be balanced against the relatively short period of time remaining to develop those activities and produce results.

### Communications

The Strategic Plan identifies the development of a communications program as a strategic operating step. Communication in this context is about advancing the mission of the organization. Goals for an effective communications program might include increasing public awareness of environmental and child development issues; increasing visibility and name recognition of FONDAM; opening doors to further fundraising; building the sense of community; finding new partners; and engaging policy decisionmakers.

Currently the specific FONDAM staff member with a major responsibility for communications is the Advisor for Inter-institutional Relations, Co-Financing, and Agreements. A communications plan does not have to entail a full-time staff position, but it should include a written communications strategy so that the

Board, the Executive Secretary, and staff are all presenting the same face to the public.

Key elements of a communications plan would be to explain the revised purpose and objectives of FONDAM, the commitment to transparency and independence, and the willingness to partner with other funds and with implementing NGOs to achieve common goals.

One essential tool for communicating with the NGOs and civil society in Peru is the FONDAM web site. For example, the complete set of documents for the current Concurso is available on the web site for download. At the moment, staff business cards list e-mail addresses but do not mention the web site address. The web site address should appear on all FONDAM correspondence, including business cards. [Additional analysis of the FONDAM web site is provided in Annex 10 to this report.]

### 3. Project Results

During its 10<sup>th</sup> meeting (04 January 2000) the Board set a target for distributing the first grant awards in the following approximate proportions: 40% for environmental projects, 20% for child survival and child development projects, and 40% for mixed projects (environmental projects that incorporated child survival and child development). The ratio, based on dollar amounts and FONDAM's categorization of each project, was 31:32:36 for the first Concurso. For the second Concurso, the ratio was 61:18:20. For the third Concurso, the ratio was 42:36:22. The fourth Concurso awarded grants specifically for eco-enterprise projects so the proportion was 100% environment. Co-financed projects have had a ratio of 85:08:07. Small projects have had a ratio of 51:27:22. The overall ratio for all awards has been 59:21:19, demonstrating a strong emphasis on projects that are primarily environmental. (The fifth Concurso was underway at the time of this evaluation.)

Distribution of Grants by Category, in Number of Individual Awards				
Mechanism	Environment	Children	Mixed	Total
Concurso 1	9	7	10	26
Concurso 2	17	6	6	29
Concurso 3	7	6	4	17
Co-Financed	14	4	2	20
Eco-Business	10	0	0	10
Small Projects	10	5	4	19
All Awards	67	28	26	121

Distribution of Grants by Category, in Dollar Amounts				
Mechanism	Environment	Children	Mixed	Total
Concurso 1	491,259	509,173	572,774	1,573,206
Concurso 2	1,318,705	395,745	432,161	2,146,611
Concurso 3	641,710	551,272	330,955	1,523,938

Co-Financed	1,534,838	139,957	121,559	1,796,354
Eco-Business	499,926	0	0	499,926
Small Projects	92,404	49,095	39,925	181,423
All Awards	4,578,842	1,645,243	1,497,373	7,721,458

Distribution of Grants by Category in Percentage of the Dollar Amounts			
Mechanism	Environment	Children	Mixed
Concurso 1	31	32	36
Concurso 2	61	18	20
Concurso 3	42	36	22
Co-Financed	85	8	7
Eco-Business	100	0	0
Small Projects	51	27	22
All Awards	59	21	19

FONDAM accepts grant applications covering a range of different activities. A typical Concurso attracts 200-300 applicants at the Profile stage. Typically fewer than 30 grants are awarded to the winners at the Proposal stage. If 90% of the applicants are turned down in each Concurso, it suggests a combination of possibilities: (1) the guidelines are too broadly drawn, (2) the NGOs are not choosing to follow the guidelines, (3) applicants are "shopping" their existing proposals among different funding sources, or (4) the available funding is not adequate to meet the demand. This situation is not unique to FONDAM. When the Italy-Peru Development Fund announced the RFP for its first concurso, more than 2,600 proposals arrived seeking a portion of the \$22 million available. Only 47 grants were awarded in that competition, an award-to-proposal rate of only 1.8%.

The Evaluation Team did not undertake an individual examination of each grant that FONDAM awarded, but conducted spot checks of the FONDAM archives and field sites. The grant records are meticulously kept. It was easy to pull the appropriate binder from the shelves and review the grant history. The archives demonstrate a great deal of contact with grantees, reflecting the quarterly visits that grantees receive from a staff person or a contractor.

One grant award in particular attracted the attention of the Evaluation Team for a variety of reasons. It is a grant awarded to the Instituto de Desarrollo del Sector Informal (IDESI) in a co-financing project with SEMPERU SA., and Proyecto PRA. First, the grant award is \$351,700 but the proposal was not forwarded to Washington DC for approval. Second, the private sector cooperator, SEMPERU SA, is in the business of selling patented hybrid agricultural seed in a project that pretends to endorse the concept of sustainability. Third, SEMPERU mentioned to the Evaluation Team during a visit to their offices that they had the project on their five-year plan and apparently would have funded it themselves; the FONDAM grant to IDESI simply allowed them to start two years earlier. Fourth, Proyecto PRA is a USAID/Peru project, so it appears that two US-supported entities are co-financing the same larger project. That in itself is not disturbing,

except that USAID/Peru was itself approving two sides of this co-financing arrangement when it did not forward the proposal to Washington. This was only one out of the twenty co-financed projects, but it accounted for nearly 20% of the funds awarded.

As required by the Framework Agreement, FONDAM each year has presented to the Parties an annual report. Each annual report has contained a detailed analysis of the number and types of proposals submitted, the numbers and types of grants awarded, and the number and types of projects by geographic distribution. One element of this analysis caused surprise among the members of the Evaluation Team. FONDAM reports the number and types of projects that target areas of the country classified as containing poverty or extreme poverty. While this information is interesting, its presence in the annual report seems to imply that extreme poverty is a priority for FONDAM. The phrase "extreme poverty" occurs once in the Framework Agreement and is not mentioned at all in the 2001 Strategic Plan.

#### *Ex Post Evaluation of Project Impacts*

The Evaluation Team congratulates FONDAM for undertaking an evaluation of project impacts, assisted by a consultant, Anibal Velasquez. Mr. Velsaquez is compiling a set of indicators based on the accumulated history of impacts from completed projects in the FONDAM portfolio. Because FONDAM grantmaking does not currently have a strategic focus, this ex post evaluation is the only feasible approach. If FONDAM implements the recommendations herein that call for a re-stating of the strategic focus and a sharpening of the proposal guidelines, then a programmatic review in the future could evaluate project impacts as well as FONDAM's own effectiveness in delivery.

#### *Sustainability*

One area deserving clarification is the use of the term "sustainable" as it is used in key phrases such as "preserve, protect, or manage the natural and biological resources of Peru in an environmentally sound and sustainable manner" in the FONDAM statement of purpose from the Framework Agreement. FONDAM seems to interpret sustainability as **project** sustainability, noting for example in the "Philosophy of Projects" section of the guidelines for the fifth Concurso that projects should "create the conditions that guarantee their continuity and the corresponding sustainability of the results and impacts of the project when the activities generated by the grant come to an end." This is a surprisingly narrow and short-term definition of sustainability and fails to take into account the more fundamental mandate to ensure that projects and activities be directed at environmental sustainability.

Sustainability for many people has three major components: socio-cultural, economic, and environmental. While all three are worthy goals, the first two take a back seat to environmental sustainability. Indeed, if a project or activity is not environmentally sustainable over the long term, it does not qualify for funding under the FONDAM mandate. The first filter for selecting projects should be environmental sustainability. After a project passes that hurdle, it should be evaluated on the other excellent criteria in the "Project Philosophy" checklist

including gender, equity, participation, diversity, cooperation, and infusion of child survival/child development.

Applying environmental sustainability as the first filter might help FONDAM to raise a red flag before approving projects such as the SEMPERU co-financing project mentioned above. The Evaluation Team is not questioning the approval of income-generating projects ("proyectos productivos") as a group. Rather the concern is that all projects pass the environmental test first. Many income-generating projects involving organic agriculture, recycling, wildlife raising, ecotourism, and others would still be possible. What is needed is a statement of FONDAM's philosophy of sustainable development in which environmental sustainability is the primary concern. (The environmental sustainability of the investment portfolio is discussed in "Section C: Asset Management and Fundraising" later in this report.)

## Conclusions

In the opinion of the Evaluation Team, if one uses the statement of purpose from the Framework Agreement to define further the goals and objectives of FONDAM, it would seem to indicate a primary focus on sustainable management of natural resources (the "preserve, protect, or manage .. natural .. resources" language) with a secondary goal of infusing child survival and child development activities into this environmental conservation and sustainable development (the "while encouraging" phrase).

[A broader analysis of the legal basis for determining FONDAM's goals and objectives, drawing on the language in the Program Agreement and in the Framework Agreement, is provided as Annex 9 at the end of this report.]

The 2001 Strategic Plan does an excellent job of detailing how FONDAM should operate *internally*. The analysis of the strengths, weaknesses, opportunities, and threats creates the outline for a comprehensive list of strategies, activities, and targets to address each item. The evidence suggests that since October 2001, FONDAM has implemented the strategic plan with considerable success, creating an efficient, transparent, and respected institution.

Where the strategic plan stopped short was in examining and developing the external vision and goals for FONDAM. The strategic plan is a manual for building an efficient, reliable, and respected machine. What it did not do was define how that machine would be used. To what end should FONDAM direct its efforts? What should "success" look like ten years from now? This may be an appropriate time to involve a broader group of stakeholders in the vision and strategy process.

The question of "focus" versus "diffusion" is a recurring debate in project financing. The "diffusion" advocates argue that providing financial support to a broad spectrum of activities rewards excellence in each area and empowers the NGO's and associations in civil society to choose appropriate paths to their own

goals and objectives. The “focus” advocates argue that providing financial support within a narrower set of goals and objectives brings additional resources to those activities and enhances the ability to show measurable progress in relatively short project cycles. Further advantages of the “focus” approach are the possibilities for program staff to develop expertise in the particular areas, potential reduction in administrative costs because profile and project review times are reduced, and a narrower range of project activities usually means that the results can more likely be added together for reporting. It avoids the “apples and oranges” problem when trying to show measurable progress, especially when attempting to attract new sources of financing. Attracting additional sources of financing to extend the life of FONDAM is part of the strategic plan, so developing more focus within the grantmaking program could prove useful in achieving this part of the plan.

## **Recommendations**

FONDAM should take its strategic planning exercise to the next step and address the question of where it wants to go as an institution. What will be its external projection? What does it want to achieve? How will FONDAM have a measurable effect on the protection and management of natural resources while encouraging child survival and child development? What should "success" look like ten years from now? This is a good time to involve a broader group of stakeholders in the process to develop that vision, long-term program strategy, and financial plan.

- FONDAM should consider reformulating its goals and objectives in concordance with the statement of purpose from Article I of the Framework Agreement. (See the discussion in Annex 9.)
- FONDAM should take care that sustainable development with an infusion of child survival remains the central theme of the grantmaking activities, and that areas such as agricultural production, extreme poverty, and alternative development, which are not given priority in the establishing documents, do not capture a disproportionate share of the resources.
- FONDAM should reconsider previous Board decisions that do not reflect the mandate on environmental sustainability. For example, Board Agreement #3 from Session 26 on 05 December 2001 stated that priority should be given to productive projects (the Spanish phrasing is roughly "orientar prioritariamente hacia proyectos productivos").
- FONDAM should rephrase the "Project Philosophy" section of the proposal guidelines to highlight the primary importance of environmental sustainability as the goal of all projects, with gender, equity, participation, diversity, cooperation, and infusion of child survival/child development as supporting activities.

- FONDAM should consider the pros and cons of changing the nature of its operations from a sinking fund to an endowed fund. Building an endowment would open the door to new fundraising activities and provide additional resources as inputs to a focused grantmaking program with measurable indicators of success.

As FONDAM considers its long-term impact on indicators of success in sustainable development and child survival, it should also consider how project selection could be improved by seeking to identify elements of success in the NGOs, the communities, and the projects.

Because lasting change takes time, FONDAM should consider investing resources in building the institutions and the process to support change, rather than expecting individual projects to accomplish this in less than 24 months.

FONDAM should ensure that the Environmental Policy Guidelines and included checklists in project reviews address the priority issue of environmental sustainability. In addition, the environmental guidelines should be used to review all of the activities in a project, even activities that would be implemented by other institutions with separate funding as occurs in the co-financed projects.

FONDAM should consider participating more actively in RedLAC to benefit from the accumulating body of knowledge from other environmental trust funds and contribute from its own experience.

FONDAM should develop a formal communications program. Key tasks include: (1) involving a broader group of stakeholders in developing the FONDAM vision and long-term strategy, (2) addressing the perception that FONDAM is "captured" by either the Government of Peru or USAID, (3) improving the image of FONDAM as a member of the Peruvian environmental and child development communities, and (4) embracing the NGOs as partners in sustainable development.

FONDAM should update its web site, placing a priority on meeting the needs of its primary customers (such as NGOs, community organizations, and educational institutions) who may have limited Internet access and slower connections. All FONDAM publications should be available from the web site, especially the establishing documents and all annual reports. More analysis and recommendations regarding the web site are in Annex 10.

## **B. Governance**

### **Findings**

#### **1. Legal And Normative Requirements**

The Framework Agreement requires the following general steps regarding appointment to and the composition of the Board:

- The government representatives serve at the discretion of the Party that appointed them;
- The civil society members shall be appointed by the GOP after receiving no USG objection, and serve ad honorem for terms of three years, which may be renewed;
- The Board will consist of eight members (two representatives from the GOP, one representative from the USG, and five representatives from “a broad range of Peruvian environmental and local community development, non-governmental organizations, and scientific and academic bodies” selected by the GOP in consultation with these groups);
- NGO Board Members may be compensated only for travel expenses and reasonable per diem.

The Bylaws establish that three of the NGO Members of the initial Board will be appointed for shorter two-year terms so that the expiration of memberships will be staggered. In this way some continuity on the Board is assured and there is no structural pressure to reappoint Members merely to provide continuity.

Most of the requirements set forth in the bilateral agreements and the Bylaws are being satisfied. Exceptions are mentioned in the relevant sections below.

## **2. GOP and USG Participation and Support**

The Parties have demonstrated their support for FONDAM and their interest in working together. Representatives attend the meetings of the Board and take an active role in deliberations.

While the Parties expressed their satisfaction with the operation of FONDAM, there was some questioning of the possible impact of FONDAM because of its size. There is a concern that FONDAM may not be "relevant" because its financial base is so limited. In comparison with other grantmaking institutions in Peru such as the Italy-Peru Development Fund with \$22 million in annual awards, FONDAM is relatively small.

### *Consultation and Review of the Framework Agreement*

The bilateral Program Agreement for debt reduction begins by stating that the Government of the United States of America and the Government of the Republic of Peru are “the Parties” to this agreement, and therefore also to any subsidiary agreements. Article VII of the Framework Agreement identifies the Secretary of State or designated Alternate for the USG and the Minister of Economy and Finance or designated Alternate for the GOP as the individuals for consultations concerning the interpretation or implementation of the Agreement. Article VII.4 states in its entirety, “The Parties shall meet to review the operation of this Agreement annually from the date of its entry into force.”

There is no evidence that these annual meetings of “the Parties” have taken place, but if this responsibility has been implicitly delegated to the level of the

Representatives of the two governments on the Board, it would support the interpretation that decisions requiring approval by one or both of the Parties had been delegated to the Representatives of the Parties on the Board.

### "Capture" of FONDAM

One additional result of GOP and USG participation in FONDAM is the perception within some parts of civil society, and in particular within the NGO community, that FONDAM is a "captured" foundation. It should be noted that this is a perception, not necessarily a reality. Everyone gave FONDAM high marks on openness, transparency, and credibility. No Board Members or Senior Staff revealed any inappropriate contacts or external pressures at any time. Even though NGO Members are nominated by national meetings to serve on the Board, the fact that the GOP must formally appoint them may give the impression of undue influence. (Rotating the Board presidency and addressing the "capture" issue in a communications program may help to address this perception.)

Others felt that FONDAM is captured by USAID. This perception was present among members of the NGO community even though USAID holds only one seat of the eight on the Board. One piece of evidence to support this claim was the existence of projects (especially in the co-financed category) approved by the FONDAM Board that have ties to other USAID-funded projects. Again it should be noted that this was a perception among some in the NGO community. There is no inherent reason to avoid projects co-financed by other USAID projects.

The support of the Parties was crucial in establishing FONDAM. For example, the initial debt relief agreement required the GOP to transfer all of the initial capital into the FONDAM escrow account at the start of this program. In several other countries, the government agreed to a schedule of payments over several years. FONDAM as originally created does not depend on further financial support from either the GOP or the USG, but this could change if the Board adopts a plan to change from a sinking fund to an endowed fund. There could be a new role for GOP and USG participation in fund raising for this endowment.

### **3. Board Structure and Operation**

The Framework Agreement requires the following general steps regarding the operation of the Board:

- The Board shall meet at least on a quarterly basis;
- The Board shall be responsible for the management and administration of FONDAM, including disseminating the calls for proposals, receiving proposals and making grants in accord with the Framework Agreement and the Bylaws, publicly announcing the winning grants, monitoring the disbursements and progress of each grant, maintaining records and making policies and criteria available to the public, presenting appropriate reports to the Parties (including an annual external audit), and appointing an Executive Secretary to carry out duties as assigned;

- Grants shall be awarded to organizations strictly on merits of the proposals presented to the Board, without regard to whether the proposing organization does or does not have representation on the Board;
- The Board shall give priority to projects that are managed by NGOs and that involve local communities in their planning and execution;
- A Board member must recuse herself/himself from participating in the approval process for any grant that favors the Board Member, the Board Member's family, or the Board Member's institution;
- For proposed grants in excess of \$100,000, the Board shall present these proposals to both Parties. Either Party may object and the grant may not be awarded. If neither Party objects within 45 days, the grant may be awarded.

The Board typically meets quarterly. In 1999 and 2000, when there were many issues to discuss related to setting up the office and hiring staff, meetings were practically weekly, but soon the frequency dropped to monthly, and now tends to be quarterly. The Executive Secretary of FONDAM serves as the secretary of the Board, without vote.

The FONDAM Board typically acts in plenary. The Board of FONDAM does not currently use committees for reducing the workload on Board Members. There had been some use of an Executive Committee, composed of a government Representative and two NGO Members, especially in the initial years under Executive Secretary Ishi Ito when the Board was perhaps busier getting FONDAM established. Similar funds often maintain standing committees on the Board for finance, fundraising, communications, personnel, and other matters. Committees may not be necessary because the FONDAM Board is relatively small at just eight members. On the other hand, always acting in plenary means a greater demand on the time of each Member.

According to the Bylaws, the Board shall elect a president and vice-president. To date, the president of the Board has almost always been the Minister of Agriculture.

#### *Ad Honorem Service by NGO Members*

As stipulated in the Framework Agreement, the NGO Members of the Board do not receive any extraordinary payments for their participation. (This creates a double penalty because a Board decision currently prohibits awards to the organizations of NGO Members.) Service on the Board requires a commitment of time and effort. In addition to the meetings themselves, there can be considerable time required to review the proposals presented to the Board. A more equitable arrangement might be to provide to the NGO Members of the Board an honoraria (for each meeting, or based on the work load for a particular meeting) in addition to any travel expenses.

The Board delegates the day-to-day operation of FONDAM to the Executive Secretary.

### Transparency and NGO Eligibility

FONDAM received high marks from NGOs and outside observers for its transparency, attention to procedure, and fairness. The Board has been stricter about this than necessary in one case: holding the institutions of NGO Board Members ineligible for grants. While this practice certainly helps to establish the reputation for treating all NGOs the same and showing no favoritism to NGOs represented on the Board, it is not necessary. The Bylaws explicitly allow grants to the institutions that the NGO Board Members represent if the affected Board Member recuses herself/himself from all discussions and decisions related to the specific proposal, yet the Board made a decision early in the life of FONDAM to prohibit this. A proposed revision of the Bylaws would incorporate this prohibition into the Bylaws. The Evaluation Team feels this would be a mistake.

### Award-Making in Compliance with Framework Agreement and Bylaws

The Board of FONDAM is in substantial compliance with the requirements of the Framework Agreement and the Bylaws regarding making the awards. All of the current grantmaking mechanisms are based on a rigorous point system to select the best proposals. Three of the mechanisms (annual Concurso, thematic Concurso, and small grants) use essentially the same point system and the same competitive process. The co-financed projects are subjected to a similar selection process, but the winners at the profile stage may request advice from FONDAM on the process of completing the full proposal documentation. In all four cases, selections are made on the basis of merit.

### Proposals Exceeding \$100,000

There exists some uncertainty regarding the procedures to use for grant requests that exceed \$100,000 in size. There are several different directives and interpretations of the mechanism for considering these proposals.

A 1998 cable from USG/State Department lists as one of the responsibilities of the USG Representative:

“Review proposed grants over USD100,000 to determine if there are grounds for exercising the USG’s veto over such projects. Grounds for veto might include concern over a project’s economic or financial viability, or the managerial capacity of the requesting NGO, as well as questions related to the scientific or technical assumptions on which the proposal is based, or other reasons. Upon receipt by the USG representative, grant proposals exceeding US 100,000 should be translated into English, if necessary, and transmitted to the Department of State with a copy to Treasury for review and comment by the President’s Enterprise for the Americas Board (EAB). For all grant proposals over USD 100,000, the U.S. representative will, within twenty days of his receipt of the proposal, send to the Departments of State and Treasury his/her personal assessment of the grant, providing recommendations for consideration by the EAB.” (SecState 50101, 20 March 1998)

In only one instance since the beginning of FONDAM has the Board approved a proposal for more than \$100,000. This was a recent co-financing project that involved SEMPERU S.A. (a subsidiary of a multi-national agro-industrial company with headquarters in Chile) and Proyecto PRA (a project financed by USAID). After consultations between the various entities involved in this project, the USAID/Peru office decided that the project could be approved at the USAID/Peru Mission level and did not need to go to Washington for review – a step that would have slowed the project an additional 2-4 weeks.

The fact that the proposal was never sent to Enterprise for the Americas Board in Washington for review demonstrated a lack of consistency in policy across the EAI program. This policy inconsistency was cause for concern in the office of the Secretariat for EAI/TFCA in Washington. Although the EAI/TFCA Secretariat favors decentralization of decisionmaking, the current Washington-based interpretation of the policies and procedures in place requires these proposals be referred to Washington for approval.

#### Dirimente

In a different situation, one might take note of the presence on the Board of an even number of Members. A more common practice is to have an odd number of Members and thereby avoid tie votes. Peru recognizes the practice of "dirimente" in which the presiding officer gets to cast an extraordinary vote in the case of a tie vote. With this practice recognized in the Bylaws, there is no chance of a tie vote occurring.

#### **4. Membership and Member Participation**

The GOP has consistently appointed the Minister of Agriculture and the Minister of Health as the two GOP representatives. The USG initially appointed a representative from the American Embassy and later the USAID/Peru Mission Director as the USG representative. Each government also names Alternates. Usually the designated Member attends the Board meetings except when official duties require them to attend to other matters. For the USG, the Member usually attends and the Alternate always attends. In July 2003, the USG appointed a second Alternate.

There is no mandate on how to allocate the five civil society memberships on the Board among the environmental and child development NGOs, academic, and scientific organizations. FONDAM started with 3 child development and 2 environmental NGOs. USAID encouraged a change to 3 environmental and 2 child development NGOs. No Members have ever been appointed from the academic or scientific communities.

To fill environmental NGO positions on the Board, FONDAM typically has asked the two largest environmental NGO associations (the Sociedad Nacional del Ambiente and the Red Ambiental Peruana) to submit a slate of nominations chosen by an assembly involving their full membership.

To fill child development and child survival NGO positions on the Board, FONDAM typically calls for a broad meeting of these organizations, announced in the national newspapers, during which this ad hoc congress selects a slate of candidates. (There is no national association of the child development or child survival groups similar to the two environmental associations mentioned above.)

In accord with the Bylaws, these forums nominate a short list containing twice as many names as open positions on the Board. The GOP representatives select the appropriate number of names from this short list and present this list to the USG representative for concurrence. In all cases but one, the USG representative concurred. In the one exception, the USG representative informally expressed support for another name on the short list and the GOP changed the selection. In other words, the process at the level of the two governments has been cordial and diplomatic.

Representatives from the NGO community expressed their support for the process for nominating NGO members to the Board and in the Evaluation Team's contacts with a broader cross-section of the society, they consistently complimented FONDAM on its attention to process and transparency in decisions.

Only one sort of issue in this appointment system has caused a problem. The problem arises when a nominee has close ties to both the GOP and the civil society. This has arisen twice when the First Lady of Peru under the two most recent administrations was nominated and appointed to fill one of the NGO positions on the Board. This created some uncertainty as to which segment of society (government or civil) she represented, especially when the Alternate representing her came from the government side. FONDAM might be able to avoid this situation by emphasizing in the guidelines to the nominating congresses that eligible candidates should have clear and unambiguous ties to the civil society side, not the government side. The reason is that the Board was deliberately created with a 5:3 majority of Members drawn from civil society.

In summary, the process for appointments to the Board has worked well. In nearly all cases, the process has been smooth. In the exceptions noted, the process worked well at the formal and informal levels to resolve the problems eventually.

#### *Composition of the Board*

Achieving the proper composition of its board of directors is a crucial step in securing the political support, expertise, and public credibility that an institution needs. The composition of the board of directors can influence the goals and objectives that an institution chooses, while in some cases it might be more useful to have the goals and objectives influence the composition of the board of directors. FONDAM may be one of these latter cases.

It could be argued that the membership on and presidency of the Board by the Minister of Agriculture might be giving emphasis to projects involving agriculture and agricultural production. Indeed during the interviews, the Alternate for the

Minister of Agriculture noted that FONDAM had three areas for grantmaking: environment, child survival, and agricultural production. He preferred the projects with agricultural production goals, ideally with income enhancements as an objective.

Peru does not have a Ministry of the Environment as in some other South American countries. The highest legal body with a broad mandate for natural resources and environmental management is CONAM, the National Council for the Environment. Although CONAM is not a ministry-level institution, there is a bill in the Peruvian legislature to give the Executive Secretary of CONAM a seat at the Cabinet level. This would signal the increased importance of environmental management within the GOP. One possibility to recognize this increased importance of the environment would be to incorporate the Executive Secretary of CONAM onto the FONDAM Board to replace the Minister of Agriculture.

CONAM sponsored the publication (with USAID/Peru funding) of a series of Environmental Action Plans ("Plan de Acción Ambiental") for the country. These regional plans identify priority activities for environmental action specific to each region of the country. Adopting these plans as part of the guidelines for FONDAM-supported projects would be another way to increase the focus of the FONDAM project portfolio (see recommendations in the section above) and ensure that project activities fit into the broader landscape of environmental priorities for Peru.

Another possibility would be to recommend the nomination of the Director of the National Institute for Natural Resources (INRENA) to the FONDAM Board instead of the Minister of Agriculture. INRENA is the section of the Ministry of Agriculture charged with promoting and monitoring: (1) sustainable use of natural resources, (2) conservation of biodiversity, and (3) integrated management of the rural environment.

An alternative to the Minister of Health for FONDAM Board membership would be the Director of the General Directorate for Children and Youth ("Dirección General de Niñas, Niños y Adolescentes") from the Ministry of Women and Social Development. This GOP agency is responsible for developing and monitoring progress in the National Action Plan for Infants and Adolescents ("Plan Nacional de Acción por la Infancia y la Adolescencia").

#### *Presidency of the Board*

To date, the Board has elected the Minister of Agriculture as the president of the Board (except for the two brief periods when the First Lady was on the Board -- at those times, she was elected president). This informal practice may be setting a precedent. Combined with the "dirimente" mechanism mentioned earlier, it creates a Board with unequal Members. The Evaluation Team favors a rotating presidency that passes to each seat for a specified period of time, or perhaps with the stipulation that the office alternate annually between a GOP and an NGO Member. The presidency should not, in the opinion of the Evaluation Team, pass to the USG representative. The Board of FONDAM needs to ensure that the

institution gains a reputation as an independent foundation and is not seen as being a "captured" foundation in the pocket of either government. Rotating the presidency and skipping the USG representative would assist in this process.

### Orientation for New Board Members

To facilitate the integration of new members into a board of directors, many organizations develop some type of formal orientation for new board members. The orientation typically includes meeting the staff, reviewing the establishing documents, and an introduction to the other members of the board. Many organizations provide a manual to each board member, outlining the functions and responsibilities that come with board membership, as well as the rationale for standing policies established by previous boards.

FONDAM currently provides new Board members with a bound stack of reading material that includes the fundamental agreements establishing FONDAM and its current policies. New Board members are also invited to FONDAM's offices for a special event where they can meet all of the senior staff.

## **Conclusions**

The GOP and the USG have continued to participate in FONDAM and have continued to support its activities.

The process for selecting Board Members has worked satisfactorily. Exceptions have been resolved amicably.

The composition of the Board does not appear to reflect adequately the purpose and mandate of FONDAM, particularly on the GOP side.

The Board meets regularly and has governed FONDAM in a proper and acceptable manner.

The ban on compensating NGO Board Members for their time seems overly restrictive.

The provision that NGO Board Members shall recuse themselves from discussions and decisions related to their own organizations is not being exercised -- the Board is taking the more drastic step of prohibiting awards to the organizations of NGO Members.

FONDAM is perceived by some as a "captured" foundation, either unfairly dominated by the GOP or unfairly dominated by the USG. The converse of this situation is that FONDAM is not perceived as a member of the broader Peruvian environmental and child survival communities.

## **Recommendations**

The Parties should discuss changing the way GOP Members are selected. The Executive Secretary of CONAM or the Director of INRENA might suit the FONDAM mandate better than the Minister of Agriculture. The Director of the General Directorate for Children and Youth from the Ministry of Women and Social Development might suit the FONDAM mandate better than the Minister of Health.

The ban on compensating NGO Board Members for their time seems overly restrictive. Changing this would involve amending Article IV Paragraph 7 of the Framework Agreement.

FONDAM should ensure that NGO organizations with Board representation specifically are encouraged to apply for funding, and that the recusal mechanism is transparently applied.

FONDAM should implement a plan to have the presidency of the Board change on a regular (perhaps annual) basis. For example, the presidency could rotate among the Peruvian members according to an assignment of seats, or it could alternate between GOP and NGO members on a regular basis. Perhaps the Presidency should alternate between the GOP and NGO Members. When the President is selected from the GOP side, the Vice President should come from the NGO side, and vice versa.

If the Board of FONDAM undertakes more activities, especially in the finance, fundraising, and communications areas, it might want to consider adopting a committee structure and adding new members to the Board. An important role of a Board Member is to provide FONDAM with expertise in addition to functioning as part of a deliberative and voting body. In the absence of adding new Members to the Board, FONDAM might consider creating external advisory groups for things such as finance, fundraising, or communications, as those needs may increase in the near future.

FONDAM should clarify the selection process used for grant awards (other than the main Concurso, which already devotes four pages to explaining the point system). It should be emphasized in the written materials and on the FONDAM web site that the established point system is used and that all awards are made on a competitive basis. (FONDAM already uses the point system throughout its grantmaking -- it needs to publicize this fact more widely.)

The Executive Secretariat should consider revising the current compendium of materials in the "Manual para los Miembros del Directorio del Fondo de las Americas." It should become more of a training manual, stressing the rights, duties, and responsibilities of Board members. Currently the compendium of materials lacks a table of contents and the pages are not numbered consecutively, nor consecutively within a section.

The current compendium contains superfluous material that could be removed and information that could be reduced to simple tables and lists. For example, the compendium contains a photocopy of the pages from Normas Legales in El

Peruano with the Decreto Supremo or Resolucion Ministerial of each act that changes the membership of the Board. A table with the names and dates of the changes might be more useful. A guide to the decisions of the Board might be useful. This manual could be held in a three-ring binder so that policy changes voted by the Board could be incorporated and outdated pages removed.

## **C. Asset Management and Fundraising**

### **Findings**

#### **1. Legal and Normative Requirements**

The Framework Agreement requires the following general steps regarding financial management:

- Deposit of the entire discharge amount in an escrow account;
- Creation of an officially recognized non-profit institution with a board of directors empowered to administer the fund;
- Exemption from taxes and fees, to the extent possible under Peruvian law;
- Appointment of a fiscal agent charged with investment and disbursement of the fund;
- Prudent, high-quality investments with every effort to yield a positive real interest rate.

#### *The Escrow Account*

It appears that the \$22.8 million of initial capital was held for 21 months (June 1997 until March 1999) in a non-interest-bearing escrow account. If this is true, then the Parties are responsible because FONDAM was not yet in existence. If this capital had been held in three-month Treasury bills or three-month certificates of deposit earning approximately 5% at that time, it would have added almost \$2 million to the initial capital. Inflation of approximately 1.6% annually over the same period reduced the real value of this initial capital by nearly \$600,000 while the steps were being taken to create FONDAM.

#### *Creation of an Institution*

FONDAM was fully capitalized from the beginning, with a deposit from the GOP into the escrow account in February 1999. The Board met for the first time 24 March 1999 and FONDAM began operations. FONDAM did not receive its “personería jurídica” or formal registration as a public institution until 2001 in part due to some uncertainty among the legal authorities as to what sort of registration it should have. Eventually FONDAM received Title 2001-00135514 which was registered in the books of the Public Registry of Lima in August 2001.

#### *Tax Exemptions*

Article II, Section 2 of the Framework Agreement states, “Any monies deposited in the Fund, or grants made by the Fund, will be free from any taxation, levies,

fees, or other charges imposed by the Parties, to the extent permissible by law.” Peruvian law establishes a sales tax (Impuesto General de las Ventas or “IGV”) that can be as high as 18%. Because the FONDAM financial agreement is bilateral, FONDAM was able to get exoneration from the sales tax. The challenge is that the tax must first be paid by the NGO implementing each project, then the NGO may apply for a reimbursement from the GOP.

IGV reimbursements reported by the NGO to FONDAM are currently counted as a deduction from the next cash advance from FONDAM to the NGO, so there is little incentive for the NGO to undertake the paper work to apply for the reimbursement. There is also a suspicion that an NGO might apply for the reimbursement, but not inform FONDAM of the payment received. Unfortunately there does not seem to be an easy solution to this problem. Exoneration at the time of purchase (as is common in the US) would require a change in the tax law and is not likely. So while FONDAM was successful in being granted exoneration from this tax, as stipulated in the Framework Agreement, the available mechanism for implementation at the project level is not 100% successful.

Unfortunately FONDAM's unusual status as an entity created by law and not as an NGO has kept it from obtaining exoneration for itself from the IGV. So while the grant recipients can apply for the exoneration and reimbursement, FONDAM cannot.

#### *Fiscal Agent and Investment Supervision*

It appears that FONDAM is in substantial compliance with all of the requirements regarding supervision of the fiscal agent and the investment portfolio. Board Members receive monthly statements from the fiscal agent. Board Members expressed their satisfaction with the level of detail in these reports -- neither too much nor too little.

The Framework Agreement in Article II states: “The Government of the Republic of Peru and the Government of the United States of America shall appoint a fiscal agent, who shall be charged with investment and disbursement of the monies in the Fund.” Section II.7 states that the deposits shall be “prudently invested.” Section II.8 adds that “the fiscal agent shall make every effort to ensure that investments ... are of high quality and yield a positive real interest rate.”

At all times since FONDAM was created, the capital of the Americas Account has been in the custody of banking and investment enterprises with an “A” rating from the GOP agency charged with supervising banking and investing.

The original fiscal agent for FONDAM was the Banco de Credito del Peru (BCP). Under the agreement between FONDAM and BCP, the management fee for handling the FONDAM capital was 0.625% plus a government-imposed 18% sales tax on the fee. A statement for the early months of FONDAM's existence (roughly the last quarter of 1999) showed the following data (in US dollars):

<b>Value of the Portfolio at the beginning of the Quarter:</b>	<b>\$23,620,825.18</b>
--	------------------------

Management Fee calculated at rate 0.625% per annum:	36,907.54
IGV (sales tax) calculated at 18% of Fee:	<u>6,643.36</u>
Total Commission for the Quarter:	\$43,550.90

The size of this management fee appeared as an issue in the very first annual report but was not changed until 2002. It could easily be more than \$160,000 per year. In 2000 and 2001 it was averaging nearly \$250,000.

In 2001 Juan Gil Ruiz, as the new Executive Secretary, made two significant changes in FONDAM's supervision of the fiscal agent. The first change was to hire a financial advisor (independent of the fiscal agent) to provide a continuing independent analysis of the fiscal agent and its management of the portfolio in light of changing market conditions. A second important change was to open the contract for the services of a fiscal agent to competitive bidding and select a new agent with much lower management fees. The lower fee structure resulted in savings on portfolio management fees of approximately \$120,000 per year over the previous fee structure. The evaluation team found both of these steps to be positive.

The fiscal agent uses a very conservative investment approach with the FONDAM capital. The vast majority of the portfolio is invested in fixed-income bonds, either directly or through mutual funds investing in bonds. Most of the portfolio currently is invested in the Peruvian financial market, which is doing better than the US financial market at this time. Prior to this evaluation, no effort was being made to screen the FONDAM investment portfolio to ensure that the invested capital is working in support of the same vision and goals that FONDAM pursues in its grantmaking.

## **2. Sinking Fund versus an Endowment**

Based on its analysis of future scenarios involving grant making and investment performance, FONDAM adopted a sunset policy where its capital would be exhausted in approximately ten more years of operations. Even if FONDAM continues to operate as a sinking fund, it can still undertake fund raising to extend its life or increase its grant making. If it takes steps to generate an endowed fund, then fundraising will take on increased importance.

A sinking fund makes sense if one considers that:

- Peru has a substantial need for investment right now in environmentally sustainable resource management and child development;
- A larger grant portfolio right now would increase the opportunities for investing in sustainability and would increase the resulting impact;
- A sinking fund can match its donations to the needs, rather than limit its contributions to the vagaries of the ups and downs of the investment markets;
- The minimum initial capital needed for an endowed fund is generally felt to be about \$50 million and these are not the best times to be fundraising for an endowment.

An endowment makes sense if one considers that:

- Meeting the longer-term needs of development projects may require an institution that is active for a longer period of time;
- It seems wasteful to expend money and staff time to build a successful organization with valuable systems and institutional memory, only to pull the plug after just a dozen years of operation;
- Generating positive and successful change may require multiple projects over several years.

## **Conclusions**

The GOP fully complied with the requirement to create the escrow account and deposit the full amount of the initial capital into the account before FONDAM was created.

The fiscal responsibilities of FONDAM have been met at all times, although it is worth noting that under Executive Secretary Juan Gil Ruiz, the process has been made competitive and more professional.

FONDAM has complied with the requirement for annual audits and the external auditors have found the management procedures to be in keeping with generally accepted accounting practice in Peru.

FONDAM has achieved a great deal developing itself as an efficient and effective institution. Extending the life of this institution, such as through the creation of an endowment, would be a way to "amortize" these benefits over a longer period.

## **Recommendations**

FONDAM should continue its practice of monitoring the performance of the fiscal agent with its staff financial advisor.

FONDAM should continue to monitor the management fees charged by the fiscal agent and periodically review their competitiveness with the fees and services of the other leading financial institutions in Peru.

FONDAM should explore the concept of "green" or "responsible" investing to ensure that the invested capital is working hard for the same goals and objectives that the FONDAM pursues with its grantmaking program. The Evaluation Team raised this idea in a meeting where the FONDAM's financial advisor and the fiscal agent were both present. They were open to exploring the mechanisms by which this might be accomplished. The suggestion was that a first step could be to add this language to the current investment guidelines that the FONDAM sets for the fiscal agent. In less than 24 hours after hearing this preliminary recommendation, the Executive Secretary issued an amendment to the investment guidelines, directing the fiscal agent to consider applying "responsible investing" to the portfolio.

FONDAM should provide the means and encourage the individuals charged with managing the investment portfolio to visit project sites in order to see how their work as the fiscal agent supports activities on the ground, and to build greater support and understanding for FONDAM's purpose.

FONDAM should continue to explore new fundraising opportunities, partnerships, and co-financing measures to extend its useful life and expand its grantmaking capabilities. One aspect it needs to test is whether it will be perceived as "a USAID fund" when it approaches European funders, and whether it can overcome this perception.

## **D. Administration and Budget Management**

### **Findings**

#### **1. Legal and Normative Requirements**

The Framework Agreement requires the following general steps regarding administration and management:

- Monitoring of grants and project performance, with grantees reporting at least semi-annually;
- Administrative costs of FONDAM, including the annual external audit, may be paid from the investment capital;
- Annual administrative costs shall not exceed a ceiling agreed by the Parties;
- FONDAM shall keep certain records and make them available for public inspection;
- The decision criteria for specific grant awards shall become part of a permanent record.

It appears that FONDAM is currently in substantial compliance with these requirements.

FONDAM has done an excellent job implementing "continuous improvement" as an institutional goal. Every staff person interviewed mentioned this and cited examples. Depending on which consultant is marketing the services, this can also be called reflection in action, adaptive management, or the creation of a learning organization.

It is time to apply "continuous improvement" at all levels, inside and outside of FONDAM. This would involve Board, staff, contractors, grantees, beneficiary groups, co-financing institutions, and others.

#### **2. Grant Administration**

### Grant Application Process

FONDAM announces each RFP for grants via e-mail, published announcements in the national newspapers, and on the FONDAM web site. The Evaluation Team also encountered copies of the latest announcement (Concurso 5) circulating on internet-based discussion groups in Latin America. It is clear that diffusion of the announcements is quite broad. Interested individuals can also sign up on the FONDAM web page to receive e-mailed announcements directly.

The current system for applying for a grant involves two distinct stages: a two-envelope Profile stage and a subsequent Proposal stage. FONDAM first uses a rigorous point system to select qualifying institutions. Two reviewers review the Institutional Information in Envelope #01 of the Profile stage to establish the qualifications of the implementing institution. Institutional information comprises up to 20 points for the final score. If the institution does not achieve 14 or more points out of 20 (the minimum requirement to participate) then Envelope #02 is not opened.

Applications passing the institutional check then move to the Profile review. Envelope #02 is opened and the Profile is reviewed by technical staff. Applications can receive up to 80 points at the Profile stage. The combined scores for Institutional Information and Profile must be 70 or more points for the institution to be invited to submit a Proposal. Winners at the Profile stage are invited to a workshop designed to help them in preparing their final Proposal. Institutions not successful at the Profile stage may visit the FONDAM offices to learn where their Institutional Information or Profile was weak.

NGOs were satisfied with the application process. While they did note the considerable amount of time required (they reported that it could take two to three months to complete all of the forms and prepare all of the documentation), they also complimented FONDAM on the transparency and objectivity of the process.

Grants awarded during the Concursos are selected competitively on the merits of each proposal. The pre-selection process at the “profile” stage and the selection process at the “proposal” stage are both driven by a strict numeric scoring of the proposal by FONDAM senior staff. The same competitive point system is used for selecting projects under all categories of grants available from FONDAM: annual competition, co-financing, small projects, and the proposed “axis of development” projects. (See Annex 11 for more details on the grantmaking mechanisms.)

### Grant Supervision and Monitoring

FONDAM has established an intensive supervision and monitoring system to track the grantee’s progress against each project’s operating plan. A staff person or a FONDAM consultant visits every project quarterly. The previous quarter’s reports must be accepted before the next quarter’s disbursement will be released. All of the progress data and indicators go into a custom relational data management system. The front end of the system is written in Visual Basic and Visual Studio. The database backend is Microsoft SQL. The system currently

can produce a dozen different reports keyed to the needs of the Board, Executive Secretary, or senior staff.

FONDAM should consider reducing its oversight role in supervising grant awards. It already chooses only the best projects from the best NGOs. As currently implemented, the supervision and monitoring program appears to be excessive both in administrative cost to FONDAM and the compliance cost to the recipient NGOs. FONDAM currently requires quarterly reports from NGOs and also sends staff or contractors to visit each project quarterly. This is a much greater level of grantee supervision than a typical short-term grant (for example, less than 24 months) requires. It appears that most of the FONDAM-supported projects are being implemented by serious, established NGOs with multiple simultaneous projects. Their project-management procedures are probably already well developed and not likely to change. These NGOs could be viewed as partners in sustainable development instead of general contractors for project implementation. Supervision and monitoring could be reduced to every six months or as needed. There might be other administrative savings that could be applied.

A typical foundation might require a report every six months for a 24-month grant. A grant of shorter duration might require a mid-project report and a final. (The Framework Agreement stipulates in Article IV paragraph 6 that these reports *should* be at least every six months.) (emphasis added)

### **3. Budget and Overhead**

Based on FONDAM's own accounting (details available in Annex 5), administrative costs or overhead exceeded the ceiling of 20% of total expenses during 1999 and 2000, but this was during the start-up years. Taken in perspective, this is not unusual because all of the startup costs had to be incurred before the first Concurso could be announced, and then several more months passed in the profile and proposal stages before disbursements to the winners began. FONDAM has kept the overhead below the 20% ceiling ever since developing a full grant portfolio.

The ceiling on administrative overhead costs is set by a formula in the current Bylaws. Article 26 states, "The annual administrative costs may not exceed 3% of the resources of the FONDAM during the previous fiscal year, nor 20% of the total programmed costs for the current year, whichever is less."

As a sinking fund, FONDAM would eventually run up against the 3% limit because there would be a continuing drawdown on the capital. There is an exception clause in Article 26 which allows the Board in exceptional circumstances to approve the budget for a year in which the formula above would set a ceiling below 2% of the value of the initial capital at the start of FONDAM or approximately \$466,885. The Operating Plan for 2003 states that the budget for 2003 is already \$532,287.

The exception clause requires approval by a majority of the Board, including the approval of the three government Representatives. It would seem that every annual budget could be treated in this way.

#### **4. Organization, Staff, and Facilities**

FONDAM operates with a relatively small staff organized in a very flat hierarchy. (See Annex 6 for a drawing of this structure.) Each of the two programmatic (grantmaking) departments plus the supervision and monitoring department has a director who reports directly to the Executive Secretary. In addition, there are two staff departments and two advisors reporting directly to the Executive Secretary.

##### Executive Secretary

(Programmatic Departments)

Environment

Child Survival

Project Supervision and Monitoring

(Staff Departments)

Administration and Finance

Systems

Advisor for Inter-institutional Relations, Co-Financing, and Agreements

Advisor of Financial Investments

During its four years in existence, FONDAM has had two Executive Secretaries. Sr. Ishi Ito served from FONDAM's inception until July 2001. Sr. Juan Gil Ruiz began 01 August 2001 and is the current Executive Secretary. FONDAM employees have been selected competitively using the services of a professional staffing or "headhunting" company. (Although the start date for the second Executive Director coincided with date of the installation of a new government, this is just a coincidence. The process to identify, interview, and select a new Executive Director had begun several months earlier.)

The people of FONDAM are professional, well qualified, and extremely focused and dedicated to their work.

The offices of FONDAM are squeezed into a building designed and constructed as a private residence. The dining room has become the main conference room, bedrooms upstairs are department offices, and what must have been the housekeeper's or chauffeur's quarters in the back yard now houses the administrative offices and filing cabinets. It is certainly not optimum commercial space, nor is the layout particularly efficient, yet many NGOs operate out of similar residences because commercial space in Lima is more expensive.

At the current staffing level, the space is marginally inadequate. If FONDAM contracts to manage additional grants programs for other institutions (see next section) or increases the size of the annual project portfolio, then new space should be considered. Unless FONDAM builds an endowment and assumes a

permanent (more than ten year) status, it is probably best to continue to rent or lease office space instead of thinking about an outright purchase.

The office furniture and equipment appear to be adequate for the workload. While the evaluation was under way, a shipment of new computer workstations arrived. A five-year replacement cycle is probably adequate for FONDAM's work. One factor driving the replacement of the older computers is the more demanding requirements of the new project tracking system.

### Grants Management Services

FONDAM is actively exploring ways to reduce administrative costs and/or increase revenues. One idea is to provide grants management services to other financing institutions such as other funds or bilateral or international institutions. Under this idea, these other institutions would essentially out-source their grants management to FONDAM for a fee. Another idea is attract new sources of funding. FONDAM has been in contact with German and Italian institutions to discuss possible new funding. Early discussions with the Global Environment Facility (GEF) ended when the GEF and FONDAM could not get past some initial institutional barriers to an agreement, but these sorts of arrangements are still attractive means to expand FONDAM activities.

FONDAM has "convenios" or agreements signed with the other primarily environmental funds in Peru to foster cooperation and avoid duplication. One outcome of these discussions has been a proposal to form a network of funds at the national level. One benefit that FONDAM sees in this is a way to pre-qualify the NGOs at the institutional level, allowing interested NGOs to apply for certification that they have met the minimum requirements to become grant recipients. The NGOs would pay a fee to receive the certification, which would be valid at any of the funds. The Evaluation Team suggested that there should also be some direct benefit to the NGO from registering for the certification. One possibility might be that the funders in this proposed network all agree to adopt the same application process and formats for proposals and periodic reporting. Both the funds and the NGOs would gain and administrative costs for all would be reduced, at least in theory.

## **5. Administrative Policies**

The Executive Secretary has issued a series of directives covering the various aspects of the organization's operations. FONDAM maintains a notebook of these policies and directives. The contents cover everything from work day, vacation, sick leave, and vehicle policies to procurement policies and the appropriate use of FONDAM computers.

## **Conclusions**

Using a formula to set a ceiling for overhead seems unnecessarily prescriptive. The Board can provide this oversight during the budget-approval process.

The level of grant supervision and monitoring is atypically high. FONDAM has done excellent work to speed up and streamline the proposal process. Now the staff needs to focus that same level of energy on making the monitoring and supervision more efficient and less intrusive for the NGOs.

FONDAM should be commended for its outreach efforts to the other national trust funds in Peru and for its efforts to market its grants management services.

FONDAM has implemented a meticulous process for selecting the project proposals. The process is fair and transparent, well regarded by the NGO community, and ensures that awards of competitive grants are made strictly on the merits.

FONDAM has a solid body of policies and procedures in place to cover the appropriate aspects of personnel matters and general operations.

## **Recommendations**

Modify the Bylaws to remove the current formula for calculating the administrative overhead ceiling and simply empower the Board to approve the annual budget by a majority that must include a positive vote from all three of the government Representatives. Include in the annual external audit a requirement that the auditors review the overhead rate for appropriateness.

Continue to explore mechanisms that would create incentives for grant recipients to apply for reimbursement of the sales tax. Perhaps the NGOs should be able to count all or part of any IGV reimbursement toward their counterpart-funding requirement.

FONDAM should disaggregate and analyze its administrative costs to identify where the greatest expenses occur. For example, co-financing may actually require more staff time per grant award and thereby drive up overhead costs.

FONDAM should reduce the frequency and intensity of grant monitoring and supervision. Quarterly is more frequent than necessary and more intensive than required by the establishing documents. It is a burden to the project implementers and more work for FONDAM. Reducing the intensity would probably result in cost savings for the NGOs and for FONDAM with no loss in project quality.

Continue to explore arrangements with external funders to provide contract services and benefit from certain economies of scale in grants management to reduce overhead costs.

Continue to explore ideas related to the creation of a network of funds at the national level. Explore ways to make this directly beneficial to both the funders and the NGOs.

## E. FONDAM and the Peruvian Context

### Findings

During the past 10 years, trust funds have become a widespread mechanism in Peru and throughout much of the developing world to channel resources oriented to different development issues such as poverty reduction, agriculture, small and middle scale enterprise promotion, and environmental management. The total amount of GOP and international cooperation resources channeled through funds has increased steadily, reaching levels of US\$ 100-200 million per year.

FONDAM joined a relatively small community of similar national environmental funds in Peru when it arrived on the scene in 1999-2000. PROFONANPE is the oldest (1992) and probably the best known of the national environmental funds, FONAM is less so, and FUNDEBOSQUE is the newest. FONDAM and FONDEBOSQUE are both grantmaking funds with a clear orientation to promote initiatives from NGOs and CBOs, while PROFONANPE and FONAM work closely with GOP institutions.

PROFONANPE was created to support the Peruvian national park and protected area system. In this work, it coordinates closely with IRENA, the government agency charged with managing the protected area system. FONAM was created with a similar idea to support the work of CONAM.

FONDAM has a clear, transparent, but relatively restrictive set of technical criteria for determining eligibility for grant awards. While the criteria are respected in the NGO community, they set a high barrier to entry into the funding arena. To qualify for FONDAM funding, an implementing organization must (1) be a legally constituted NGO, (2) have a record of successful project implementation, and (3) be able to fund from a different source the costs of preparing and submitting the paperwork for the Profile stage, and if successful, (4) be able to fund from a separate source the costs of preparing the full Proposal stage. While FONDAM offers workshops to NGOs successful at the Profile stage to help them develop a solid Proposal, it does not offer any funding to defray any of the profile or proposal planning and preparation costs.

In effect, FONDAM is doing what foresters refer to as high-grading or selective cutting. In forest management, high-grading means removing just the most valuable timber from a site. For FONDAM, it means limiting the universe of eligible NGOs to just the strongest and most capable ones. One reason to do this might be to reduce the administrative costs of overseeing the implementation of the grant awards, but FONDAM still conducts quarterly supervision inspections of all projects and makes the next quarterly disbursement dependent upon progress in implementing the operating plan. The implementing organization is viewed essentially as a contractor.

Article IV Paragraph 6 of the Framework Agreement states that "[g]rant agreements *shall* provide for periodic progress reports" and goes on to suggest

that "[s]uch reports *should* be received from the grantees at least semi-annually." (emphasis added) This wording leaves open the possibility that reporting could be less frequent if warranted.

## Conclusions

One inherent cost of setting the barriers to entry so high is that FONDAM does not have a mechanism for fostering the development of emerging NGOs. Emerging NGOs can be ones that are new or organizations that are still developing their skills and procedures. While FONDAM professes to want to strengthen civil society, it does not have a program to build these NGOs nor to build community-based organizations (CBOs). The only path available to a start-up NGO or CBO would be an award under the small grants program, but these have a ceiling of \$10,000. It appears from the record of grants awarded that a community group would not qualify at all. FONDAM staff mentioned that a start-up or a community group could always partner with an established NGO, but the contract implies that the lead NGO would still be the responsible party. There is no path to capacity building through doing.

The Evaluation Team did not have the mandate nor the time to examine the full context of grantmaking in Peru. There appear to be essentially no other funding sources that provide significant support to start-up NGOs and CBOs.

FONDAM should explore coordinated ways to reduce NGO reporting requirements in collaboration with other foundations and funding sources. For example, the network of foundations and other funding sources for NGOs and CBOs in Peru could synchronize their reporting requirements, could use similar reporting forms and line items, and could promote a standardized set of results indicators.

Viewing the NGO as a partner might pave the way for considering projects with more than one 24-month period of activities. A "phase one" award might lead to a "phase two" award on the same project.

At the other end of the institutional spectrum, FONDAM might want to consider doing more to foster the development and capacity building of emerging NGOs and CBOs in civil society. Individuals can learn from workshops, but institutions usually learn by doing. FONDAM might consider funding some more risky, less certain projects and activities. If the likely increase in supervision costs as a percentage of the grant is a concern, then FONDAM could consider a special competition to award a grant for NGO and CBO capacity building to an intermediate NGO or "management support organization" (MSO) that would manage sub-grants to smaller NGOs and CBOs.

Other areas to consider for carefully targeted support might be research and thesis support, especially in areas of interest to FONDAM if it begins to focus grantmaking resources on particular themes or topics, such as the axis of development projects.

## Recommendations

FONDAM should explore new ways to engage the NGOs as partners in sustainable development and be careful to avoid viewing them merely as contractors to implement projects. Steps might include:

- Reducing the level of supervision FONDAM applies to each grant. An award covering less than 12 months might warrant a single visit. Awards covering more than 12 months might warrant semi-annual visits. Phase two or follow-on awards might receive a single close-out visit. Established NGOs and groups with a prior record of achievement with FONDAM might qualify for reduced supervision.
- Working with other foundations and grantmaking institutions to standardize their forms, requirements, and indicators with the goal of reducing administrative costs for all concerned.
- Increasing the services it provides to emerging NGOs and CBOs, including workshops and consulting services -- business planning and financial sustainability would be key components of those services.

## **V. Suggested Changes in the Authorizing Documents**

This section provides a brief summary of recommendations that would require changes in the authorizing documents, including the agreements between GOP and USG regarding FONDAM. Some or all of the modifications specific to FONDAM might be accomplished through a less formal procedure such as an exchange of diplomatic letters between the Parties. The initiative for these modifications should come from the Board or the Executive Secretary of FONDAM as they consider all of the recommendations in this report.

### **A. Changes at USG Congressional Level**

Amend Article IV Section 3 of the Framework Agreement, raising above \$100,000 the ceiling for proposed grants that must be presented to the Parties for approval.

### **B. Changes at the Level of the Parties**

Clarify that the authority to approve the larger projects (those projects exceeding \$100,000) resides either with (1) the Representatives of the Parties, or (2) the Parties themselves, as described in Article VII of the Framework Agreement. (Also requires amending Bylaws at Article 9 Section h and at Article 10.) The Evaluation Team favors authorizing the Representatives of the Parties to have the power to approve these larger grants.

Amend Article IV Section 7 of the Framework Agreement to direct that each NGO Member of the Board shall receive a reasonable honorarium as compensation for the time and effort dedicated to Board responsibilities, especially considering the time spent reviewing the portfolios of proposals.

### **C. Changes at the Board Level**

Reverse the Board decision to prohibit awarding grants to organizations represented on the Board. There is no such prohibition in the Agreements or Bylaws and indeed grants to organizations represented on the Board are expressly permitted under Article III Section 4 of the Framework Agreement and Article 7 of the Bylaws. A proposed revision of the Bylaws would have made this Board decision part of the Bylaws. The Evaluation Team favors reversing the Board decision.

Amend Article 26 of the Bylaws, removing the formulaic approach to the overhead ceiling for FONDAM and simply allowing the Board to review and approve the annual budget, as long as the proposed budget receives the approval of the Representatives of the Parties. The mandate for the annual external audit could be amended to include a review of the overhead expenses to certify that they are reasonable and justified.

## **D. At the Discretion of the Government of the Republic of Peru**

Through an appropriate mechanism, request that the GOP consider appointing the Executive Secretary of CONAM or the Director of INRENA instead of the Minister of Agriculture; and the Director of the General Directorate for Children and Adolescents instead of the Minister of Health, as the two GOP representatives on the Board.

# Annexes

## Annex 1. Terms of Reference

### Evaluation of the Fund of the Americas in Peru

This evaluation has two focus areas: 1) an institutional evaluation of the Fund of the Americas of Peru and 2) an evaluation of the Enterprise for the Americas (EAI) Environment Account that underpins this program in Peru. This evaluation is meant to provide conclusions (in addition to previous evaluations conducted in Jamaica, Colombia, and Chile) and recommendations that will be valuable to this fund but also to other EAI trust funds and to the designers of new trust funds now being established under the Tropical Forest Conservation Act.

#### Terms of Reference

##### Products

1. Conduct an institutional evaluation of the Fund of the Americas in Peru, and an evaluation of the Enterprise for the Americas Environment (EAI) Account for Peru.
2. Interview a broad cross-section of relevant stakeholders and interest groups involved with administration of the program and a representative sample of grantees, beneficiaries, and applicants for EAI funding.
3. Conduct site visits to examine how selected projects are in operation, with respect to the Fund's administrative efficiency, structure, and performance.
4. Analyze all the data and draft a report, including conclusions and recommendations.

## Annex 2. List of Persons Contacted

### Fondo de las Américas

#### Board Members

Paz Silva, Luis	Board Alternate, representing Minister of Agriculture
Miller, Tim	Board Alternate, representing USAID/Peru Director
Vaccari Chávez, Juan	Director Ejecutivo, Instituto de Desarrollo y Medio Ambiente (IDMA)
Valdez Muñoz, Walter	Director, ProTerra

#### Staff

Balbín, José Antonio	Director of Information Systems
Bendezú Negri, Carlos	Director of Child Survival
De Romaña Amoros, Alvaro	Director of Inter-institutional Relations, Co-Financing, and Agreements
Gil Ruiz, Juan	Executive Director
Grados Carazzas, Raúl	Director of Administration and Finance
Leon-Prado D., Guillermo	Financial Advisor
Torres Velásquez, Luis	Director of Supervision and Monitoring
Turkowsky Castagnola, Jenny	Director of Environment
Velásquez, Anibal	Consultant, Evaluation Specialist

#### **External Interviews**

Baffigo de Pinillos, Virginia	National Coordinator, CARE
Cabrera Nieri, Humberto	Assistant to the Executive Director, Fondo para Areas Naturales Protegidas por el Estado (PROFONANPE)
Castro, Mariano	Executive Secretary, Consejo nacional del Ambiente (CONAM)
Cueto, José Luis	Manager of Market Business, Santander Central Hispano Investment S.A.B.
Espinoza, Oscar	Director of Environmental Management, IPES
Gonzales Zúñiga, Alberto	Executive Director, Fondo Nacional del Ambiente (FONAM)
Guerra Urioste, Isabel	General Director, Fundación por los Niños del Perú
León Huaco, Bárbara	President, TECNIDES
León Prado, Guillermo	External Financial Advisor, PROFONANPE
Maravi, Edgar	Director, WWF Program for Peru
Narvaez Cobo, Liliana	Director of New Business Development, SEMPERU S.A.
Nizama Silva, Claudio	Secretario General, FIUPAP
Ovando, Carlos	Project Director, PRONATURALEZA/Pisco
Palomares de los S., Mario	Director of Projects, AIDER

Paniagua, Alberto	Executive Director, PROFONANPE
Pecho Manyari, Iris	Professor of Health, Universidad Peruana Cayetano Heredia
Pielemeier, John	Consultant, Evaluation of Jamaica Fund
Putney, Allen	Consultant, Evaluation of Colombia Fund
Rafferty, Kate	Country Director, Peace Corps/Peru
Ramirez V., Yolanda	Director of Training, Research, and Environmental Education for AIDER
Riesco, Alfredo	President and Executive Director, Consorcio para el Desarrollo Sostenible de Ucayali (CODESU)
Solano Cornejo, David	Director of Environmental Education and Culture, CONAM
Takahashi, Josefina	President, SUSTENTA (former FONDAM Board Member)
Torres Baca, Juan	General Director, Lubricantes Filtrados Marte Eirl
Vásquez R., Darwin	Chief, Proyecto PRA
Villar, Libio	Environmental Advisor, IES

## **Annex 3. Projects Visited**

### **Site Visits**

#### **Securing the Water Quality for Small Marginal Urban and/or Rural Population Centers Using Slow Filtration Systems and Purification, Alto Huampaní**

Partner: TECNIDES

Department: Lima; Province: Lima; District: Lurigancho; Community: Huampaní

#### **Promotion of Health Care for Children under Three Years of Age, in a Marginal Urban Zone North of Lima.**

Partner: Cayetano Heredia University of Peru.

Department: Lima; Province: Lima; District: Independencia; Community: Ermitaño Alto

#### **Environmental Management of Used Oil in the Coastal Areas of San Andres, Pisco.**

Partner: IPES and Lubricantes Filtrados Marte (private company)

Department: Ica; Province: Pisco; District: San Andres

#### **Strengthening Environmental Management and Promotion of Sustainable Development in the District of San Andres as a Contribution to the Alleviation of Extreme Poverty and the Conservation of the Paracas National Reserve.**

Partner: PRONATURALEZA

Department: Ica; Province: Pisco; District: San Andres

### **Office Visits**

#### **A Sustainable and Replicable Silvopastoral Model against Desertification and Poverty**

Partner: AIDER

Region: Piura; Provinces: Piura and Morropón

#### **Reducing the Mortality Index of Children Under 5 Years in the Costa Azul Human Settlement**

Partner: Fundación por los Niños del Perú

Region: Callao; Province: Callao; District: Ventanilla

#### **Conservation, Management, and Rational Use of Aguaje Palm in Family Parcels in the Middle Section of the Ucayali Watershed.**

Partner: CODESU

Region: Ucayali

**Sustainable Production and Agro-industrial Processing of Grains Based on of Small- and Medium-Size Agricultural Producers in the Pachitea and Ucayali Watersheds.**

Partners: IDESI-Huánuco, SEMPERU, PRA Project (co-financing)

Departments: Huanuco and Ucayali; Provinces: Pachitea and Coronel Portillo;

Districts: Honoria and Tournavista

**Management Model for Solid Wastes from Health Facilities**

Partners: OACA/SPDA Consortium, CARE (co-financing)

Region: Lima; Province: Lima; District: Comas

Note: Titles in **Bold** are the approximate English translations of the original project titles in Spanish.

## **Annex 4. List of Key Documents Reviewed**

**Balance de la Labor Institucional 2001.** Instituto de Desarrollo y Medio Ambiente, Lima, Perú. 59 pag.

**Base de Datos: Dirección de Supervivencia y Desarrollo Infantil.** Fondo de las Américas del Perú. (sin fecha) 86 pag.

**Bases del Quinto Concurso de Proyectos.** Fondo de las Américas. Lima, Perú. Abril 2003.

**Ciclo Vital de los Proyectos del Fondo de las Américas.** Fondo de las Américas del Perú. (sin fecha) 2003. 107 pag. y CD.

**Construcción de Capacidades: Estrategias de Intervención y Experiencias de ONG's Ejecutoras de Proyectos.** Fondo de las Américas del Perú. (sin fecha) 2003. 348 pag y CD.

**Convenio entre el Gobierno de los Estados Unidos de América y el Gobierno de la República del Perú Referente a la Creación de un Fondo de las Américas y de un Consejo de Administración.** 24 Diciembre de 1997. Lima, Perú.

**Disminuir el Índice de Morbimortalidad en la Población Menor de 6 Años del Asentamiento Humano Costa Azul: Informe Final.** Fundación por los Niños del Perú. Lima, Perú. 35 pág incluyendo anexos.

**Experience with Conservation Trust Funds.** Evaluation Report 1-99. Global Environment Facility. Washington DC. 80 p.

**FDLA-117-2003-SE. Letter from Secretario Ejecutivo Juan Gil Ruiz to the Director of Investing Business José Luis Cueto of Santander Central Hispano Investment, SAB, directing that the investment guidelines be modified to include a preferential orientation toward responsible investing. Dated 11 June 2003.**

**Fondo de las Americas del Peru.** Powerpoint presentation. 9 de junio de 2003. 45 slides.

**Fondo de las Américas.** Powerpoint presentation. Prepared by José Luis Cueto, Santander Central Hispano, Lima, Peru.

**Indicadores de los Factores de Vulnerabilidad de la Población Infantil y Mapeo Institucional en la Temática de Niñez.** Fondo de las Américas del Perú, Lima Perú. Mayo 2001. (s/n)

**Informe de Gestión: Octubre 2001 – Setiembre 2002 y Plan Operativo 2003.** Fondo de las Américas del Perú, Lima, Perú. (s/fecha) 126 pag.

**Informe: Planeamiento Estratégico.** Prepared by Consultant/Facilitator Jorge Cárdenas Bustíos, Fondo de las Américas. Octubre 2001.

**Lineamientos de Política Ambiental de los Proyectos Financiados por el Fondo de las Américas.** Fondo de las Américas del Perú. March 2003. 25 pag.

**Lineamientos de Inversión.** Fondo de las Américas, Lima, Perú. 1 pag.

**Listado del Pequeños Proyectos Especiales.** Fondo de las Américas. Lima, Perú.

**Listado del Proyectos de Cofinanciamiento.** Fondo de las Américas. Lima, Perú.

**Listado del Proyectos del Cuarto Concurso.** Fondo de las Américas. Lima, Perú.

**Listado del Proyectos del Primer Concurso.** Fondo de las Américas. Lima, Perú.

**Listado del Proyectos del Segundo Concurso.** Fondo de las Américas. Lima, Perú.

**Listado del Proyectos del Tercer Concurso.** Fondo de las Américas. Lima, Perú.

**Manual de Organización y Funciones.** Fondo de las Américas del Perú. Lima, Perú. Vigente: 20 pag, En Revisión: 20 pag.

**Mapa Ecológico del Perú.** Fondo de las Américas del Perú. Lima, Perú. Junio 2001. 116 pag.

**Normas para el Otorgamiento de Fondos: Programa de Actividades Especiales.** Directiva General 005.03.FONDAM.SE. Fondo de las Américas. Lima, Perú. 04 abril de 2003.

**Plan de Acción Ambiental.** Comisión Ambiental Regional de Ica. Consejo Nacional Ambiental. June 200. 24 pag.

**Plan Estratégico.** Fondo de las Américas del Perú. Octubre 2001. 16 pag.

**Plan Operativo 2003.** Fondo de las Americas del Peru. Enero 2003. 11 pag.

**Reglamento del Fondo de las Américas.** Versión modificada por el Consejo 21/06/99. Fondo de las Americas. Lima, Perú.

**Report of Activities: March 1999 – September 2000.** Fondo de las Americas del Peru, Lima, Peru. 56 p. Plus annexes. Bilingual.

**Report of Activities: October 2000 – September 2001.** Fondo de las Americas del Peru, Lima, Peru. 169 p. Plus annexes. Bilingual.

**Reporte del Mes de Abril 2003.** Santander Central Hispano Investment SAB S.A. Lima Perú.

**Reporte del Mes de Diciembre 2002.** Santander Central Hispano Investment SAB S.A. Lima Perú.

**SEMPERU S.A.** promotional materials.

**The Operation of the Enterprise for the Americas Facility and The Tropical Forest Conservation Act: Report to Congress.** EAI/TFCA Secretariat, USAID, Washington DC. 108 p.

## Annex 5. Financial Highlights

The initial capital of FONDAM was deposited into an interest-bearing cash account in the Banco de Credito de Perú (BCP) on 25 February 1999. FONDAM officially began operations in March of 1999. Banco de Credito Peru was the initial fiscal agent, investing the FONDAM capital in a diversified portfolio. The role of fiscal agent was awarded to Banco Santander Central Hispano (BSCH) by Agreement #2 of Session 30 of the Board on 17 May 2002 after an open competition to select a new fiscal agent.

### Investment Performance and Administrative Overhead

	1999	2000	2001	2002
<b>Beginning Balance</b>	<b>22,844,235</b>	<b>23,867,176</b>	<b>24,228,358</b>	<b>24,219,514</b>
Investment Income	1,144,196	1,178,153	2,891,378	1,278,868
Total Available	23,988,431	25,045,329	27,119,736	25,498,382
Grant Awards			-2,107,164	-2,156,281
Fiscal Agent Fee	-15,753	-268,685	-233,526	-113,752
Operating Expenses	-105,502	-453,726	-559,532	-442,017
Other Expenses		-94,560		
<b>Closing Balance</b>	<b>23,867,176</b>	<b>24,228,358</b>	<b>24,219,514</b>	<b>22,786,332</b>
Performance <sup>1</sup> (%)	5.0	4.9	11.9	5.3
Overhead <sup>2</sup> (%)	87.0	55.6	19.3	16.3

#### Notes:

All figures in US dollars except the last two rows, which are in percent.

<sup>1</sup> The formula used by the Evaluation Team to calculate "performance" in a given fiscal year was investment income divided by beginning balance for that year, expressed as a percent. The actual performance would be slightly higher because expenses were being taken out of the invested capital as the year progressed.

<sup>2</sup> The formula used by the Evaluation Team to calculate "overhead" in a given fiscal year was operating expenses divided by the total of all expenses for that year, expressed as a percent.

(Financial data supplied by FONDAM staff)

To assess the quality of the investment performance by the fiscal agent, it is useful to compare the investment return on the FONDAM capital with some of the indexes of the increasingly global financial market. The past five years, precisely the period in which FONDAM has been operating, have seen dramatic swings in the markets. The bursting of the dot com bubble, the economic downturn following the terrorist attacks of September 11th, and the uncertainty of an economic recovery that does not generate new jobs are combining with other influences to create a very challenging time for investors. The stocks of the market's largest companies, as measured by the S&P 500 Index, have swung from a 28% increase in 1998 to a 22% loss in 2002. Corporate bonds have tended to be less volatile during the period, but the Lehmann Brothers Corporate

Bond Index and Aggregate Bond Index, for example, both saw negative returns for 1999.

One goal in trust fund investing is to maintain a positive net investment income with respect to inflation. Using the Consumer Price Index as the measure of inflation of the US dollar, it is clear from the table below that FONDAM has preserved the value of the capital ahead of inflation.

In a second comparison against short-term money market rates, the results are different. BCP, the first fiscal agent, was not able to achieve performance ahead of the return on a 3-month certificate of deposit in 1999 or 2000 but exceeded it in 2001. BSCH, the current fiscal agent, stayed ahead of the CD rate in 2002.

A question that all trust funds face is how to apportion the capital among the various investment vehicles that exist. Lorenzo Rosenzweig, one of the leaders of the national trust funds in Latin America, has considerable experience as the head of the Fondo Mexicano para la Conservacion de la Naturaleza and as the outgoing president of RedLAC, the network of environmental trust funds in Latin America. Rosenzweig has articulated what has come to be called the "Rosenzweig Doctrine." This doctrine basically says that fixed costs should be covered by fixed-income investments. Once the fixed costs are covered by the generally more reliable fixed-income investments, any remaining capital can be invested in more aggressive instruments.

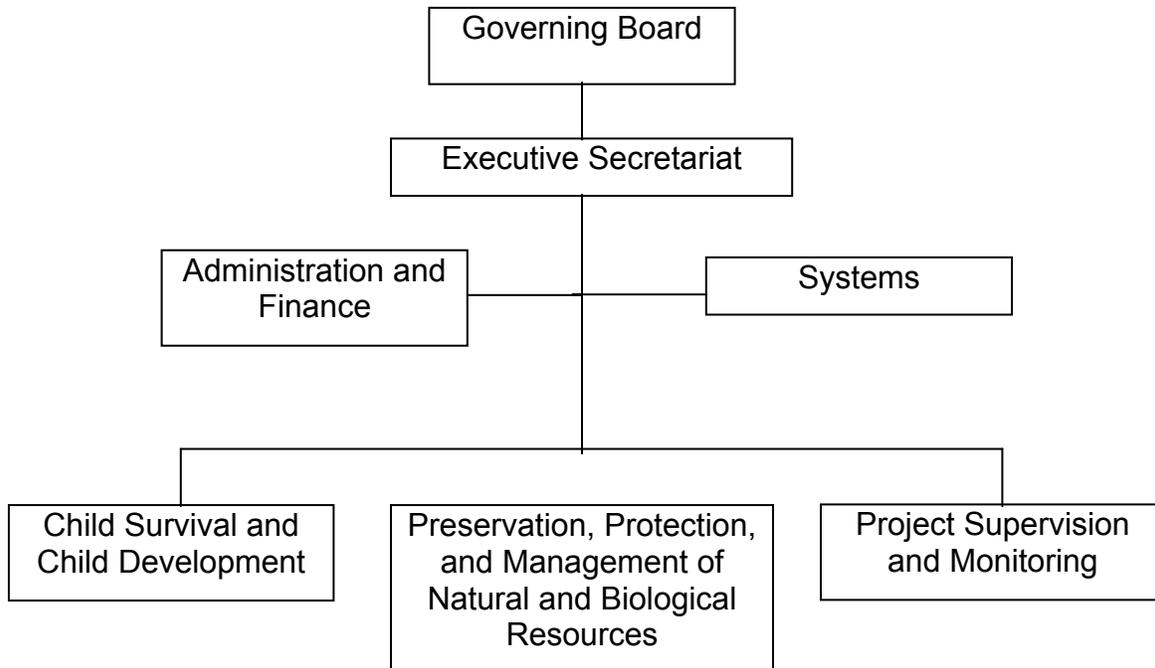
Both fiscal agents have kept the FONDAM capital in a quite conservative portfolio heavily invested in bonds and bond mutual funds. During the most volatile and downward-trending periods of the past two or three years for the US markets, the FONDAM portfolio was heavily invested in Peruvian bonds. In the way, the fiscal agents protected the FONDAM portfolio from much of the global swings and were able to maintain a positive real rate of return when many indexes and whole markets showed actual losses.

<b>Comparisons</b>	1998	1999	2000	2001	2002
<b>FONDAM performance</b>	na	<b>5.01</b>	<b>4.94</b>	<b>11.93</b>	<b>5.28</b>
Consumer Price Index (inflation)	1.61	2.68	3.39	1.55	2.60
3-month Certificate of Deposit	5.47	5.33	6.46	3.69	1.73
Standard & Poor's 500 Index	28.58	21.04	-9.10	-11.88	-22.09
Lehmann Brothers Corporate Bond	8.46	-1.94	9.40	10.40	10.53
MSCI EAFE	18.23	25.27	-15.21	-22.61	-17.52
US Government Bond, 2-4 yr	5.73	6.18	6.22	5.63	
Moody's Aaa Corporate Bond	6.5	7.0	7.6	7.1	6.5

Notes:

MSCI EAFE is Morgan Stanley Capital International's Europe, Australasia, and Far East Index.

## Annex 6. Organizational Structure of FONDAM



Note: The office of the Executive Secretary includes an Advisor for Inter-Institutional Relations, Co-Financing, and Agreements. The Executive Secretary also uses the services of an external consultant as an Investment Advisor.

## Annex 7. General Information about FONDAM

FONDAM was authorized in 1997 and began operations in 1999. It is currently managed as a sinking fund, using the capital and interest from an initial debt buyback. FONDAM currently operates several different grantmaking mechanisms, each year assigning approximately \$1,500,000 to the competitive grantmaking process, \$700,000 to co-financed projects, and \$100,000 to small grants (less than \$10,000 each).

### Governing Board of FONDAM

<u>Member</u>	<u>Institution</u>	<u>Alternate</u>
Alvaro Quijandría Salmon	Ministry of Agriculture	Luis Paz Silva
Fernando Carbone	Ministry of Health	Luis Canales
Patricia Buckles	USAID	Timothy Miller and David Lippeatt
Alexandra Cugler	IDEFE	
Walter Valdez	PROTERRA	
Alejandro Vassilaqui	CEDRO	
Juan Vaccari	IDMA	
(in process of approval)	Guaman Poma de Ayala	

The Board is supported by an Executive Secretariat with nine technical/professional staff plus six administrative staff and assistants.

### Vision

"To lead in promoting activities for a sound and sustainable environment and child survival and development in Peru." (Strategic Plan, 2001)

### Mission

"To promote activities designed to preserve, protect, or manage the natural and biological resources of Peru in an environmentally sound and sustainable manner, while encouraging the improvement of child survival and development in Peru." (Framework Agreement, 1997; and Strategic Plan, 2001)

### Elements of the FONDAM Project Philosophy

- Participation
- Equity
- Gender focus
- Respect for the environment
- Contribute to improvements in child survival and child development

Promote inter-institutional cooperation  
Sustainability

### **Eligible Project Implementers**

Executing or implementing organizations of the grant awards shall be ...

"national NGOs and not-for-profit institutions from civil society properly constituted and legally recognized under Peruvian law whose objectives and activities are related to the protection, preservation, or administration of natural and biological resources of Peru in a sustainable and environmentally sound manner, and/or that promote as well the improvement of child survival and child development in Peru." (Guidelines for the Fifth Concurso, 2003)

### **Counterpart Contribution**

FONDAM requires at least a 10% combined counterpart contribution from the implementing organization, its associates, and the community or beneficiaries of each Project. The contribution may be in any combination of cash, personnel, in-kind services, or other direct project-related contributions.

### **Chronology**

1992

Creation of PROFONANPE, considered the oldest national environmental fund in Peru. PROFONANPE is closely linked to IRENA and its grantmaking supports the Peruvian system of national parks and protected areas.

1997

“Program Agreement by and between The Government of the United States of America and The Government of the Republic of Peru concerning the Sale, Reduction, and Cancellation of Certain Loans” (the “Program Agreement”) signed on 26 June 1997

FONDAM formally created by the “Agreement between the Government of the United States of America and the Government of the Republic of Peru concerning the Establishment of an Americas Fund and Administering Board” (the “Framework Agreement”) signed on 24 December 1997.

Initial capital placed in escrow account where it apparently earned no interest.

1998

The USG representative designated by the State Department in 1998.

1999

Establishment of FONDAM. The GOP members of the founding Board for FONDAM appointed on 06 February 1999. Five NGO members selected in March 1999 and officially appointed on 21 July 1999. The full Board was seated on 24 March 1999, which becomes the official date of FONDAM's launch into operation.

The Board selected Mr. Ishi Ito as the first Executive Secretary and together with the Board, he began the process of building FONDAM as an institution.

2000

First Call for Proposals: 2000 February

2001

Second Call for Proposals: 2001 February

Board selected Juan Gil Ruiz as Executive Director: 2001 August

Strategic Plan: 2001 October

2002

Third Call for Proposals: 2002 January

Fourth Call for Proposals, focusing on Eco-Business: 2002 August

2003

Fifth Call for Proposals: 2003 April

FONDAM Evaluation: 2003 June

## Annex 8. Acronyms and Abbreviations

AIDER	Asociación para la Investigación y el Desarrollo Integral
BCP	Banco de Crédito del Perú
BSCH	Banco Santander Central Hispano
CBO	Community-Based Organization
CEDRO	Centro de Información y Educación para la Prevención del Abuso de Drogas
CI	Conservation International
CODESU	Consortio para el Desarrollo Sostenible de Ucayali
CONAM	Consejo Nacional del Ambiente
EAI	Enterprise for the Americas Initiative
FDC	Fondo de Desarrollo Comunal
FIUPAP	Federación de Integración y Unificación del los Pescadores Artesanales del Perú
FONAM	Fondo Nacional del Ambiente (National Fund for the Environment)
FONDAM	Fondo de las Américas del Perú (Fund of the Americas of Peru)
FONDEBOSQUE	Fondo de Promoción de Desarrollo Forestal
FONCODES	Fondo de Compensación para el Desarrollo Social
GEF	Global Environment Facility
GOP	Government of Peru
IDEFE	Instituto de Estudios de Factibilidad Ecológica
IDESI	Instituto de Desarrollo del Sector Informal
IDMA	Instituto de Desarrollo y Medio Ambiente
IGV	Impuesto General a las Ventas (General Sales Tax)
INRENA	Instituto Nacional de Recursos Naturales
IPES	Promoción del Desarrollo Sostenible
MSO	Management Support Organization
NGO	Non-Governmental Organization
PL480	Public Law 480 (includes Food for Work)
PRA	Poverty Reduction and Alleviation (a USAID-financed project)
PROFONANPE	Fondo Nacional para las Area Naturales Protegidas por el Estado
RedLAC	Red de Fondos Ambientales de Latinoamérica y el Caribe (Environmental Funds Network of Latin America and the Caribbean)
RFP	Request for Proposals
TECNIDES	Asociación Tecnología y Desarrollo
TFCA	Tropical Forest Conservation Act
TNC	The Nature Conservancy
USAID	United States Agency for International Development
USG	United States Government
WWF-US	World Wildlife Fund - US

## **Annex 9. Analysis of the Language Related to Vision and Purpose**

### **Background**

What is the legal basis for establishing the goals and objectives of FONDAM? This annex undertakes an analysis of the language in the two fundamental legal documents of FONDAM, the Program Agreement signed on 26 June 1999 and the Framework Agreement signed on 24 December 1999. It ends with recommendations for restating FONDAM's vision and purpose and revising the Strategic Plan.

Article I of the Program Agreement states:

“In furtherance of the goals of the Enterprise of the Americas Initiative to promote environmentally sound and sustainable economic development, child survival, and child development,

Recognizing that environmental protection, conservation, and sustainable natural resource management are key elements in building an ecologically and economically sound future for all countries in the Western Hemisphere,

Recognizing that child survival and child development are frequently linked to environmental conservation and can be addressed effectively in tandem,

Recognizing that private sector involvement is important to achieve economic efficiency, ...”

The Framework Agreement repeats most of the same language in its preamble section:

“Desiring to promote environmentally sound and sustainable economic development, including the encouragement of child survival and child development,

Recognizing that environmental protection, conservation, and sustainable natural resource management are key elements in building an ecologically and economically sound future for all countries in the Western Hemisphere,

Recognizing that a country's children are its greatest resource, represent its future, deserve a sound natural resource base for a quality life, and deserve protection from the health hazards of preventable environmental pollution and degradation,

Recognizing that environmentally sound development and sustainable economic development, and child survival and child development, may help alleviate extreme poverty and promote alternative development,

Recognizing that child survival and child development are frequently linked to environmental conservation and can often be addressed effectively in tandem, ...

The purpose of FONDAM is stated in Section I of the Framework Agreement as:

“to promote activities designed to preserve, protect, or manage the natural and biological resources of Peru in an environmentally sound and sustainable manner, while encouraging the improvement of child survival and development in Peru.”

Article V of the Framework Agreement states:

Grants from the Americas Fund shall be used for:

- activities that link the conservation and sustainable use of natural resources with local community development, and
- child survival and other child development activities.

Two sets of similar phrases appear at least seven times in these two fundamental documents. The first set of phrases uses words like "preserve, protect, and manage" in relation to natural resources and biological resources. This set of phrases also mentions environmental soundness and sustainability. The second set of phrases uses words like "child survival and child development" an equal number of times, but usually as a modifying clause or subsidiary clause. Only in Article V of the Framework Agreement does the "child survival" phrase appear at the same level of hierarchy as the "conservation and sustainable use" phrase, but even in this case it appears as the second purpose for which grants shall be used.

The specific use of the particular language and positioning of the key phrases in these documents would seem to indicate that FONDAM is directed to adopt a primary focus on sustainable management of natural resources with a secondary goal of infusing child survival and child development activities into environmentally sound and sustainable resource management.

It is also worth noting that the phrases "extreme poverty" and "alternative development" appear only once each, and in a statement that recognizes that environmentally sound development "*may*" [emphasis added] help to address them. Clearly the emphasis is on environmentally sound resource management and sustainable development, and not on extreme poverty nor on alternative development.

## Conclusions

In the opinion of the Evaluation Team, if one uses the statement of purpose from the Framework Agreement to define the goals and objectives of FONDAM, it would seem to indicate a primary focus on sustainable management of natural resources (the "preserve, protect, or manage .. natural .. resources" language) with a secondary goal of infusing child survival and child development activities into this environmental conservation and sustainable development (the "while encouraging" phrase).

## Recommendations

- FONDAM should consider reformulating its goals and objectives in concordance with the statement of purpose from Article I of the Framework Agreement.
- FONDAM and the Parties should consider the composition of Board in light of the clear priority on resource conservation and sustainable development where environmental sustainability is paramount. CONAM may be a more appropriate GOP member of the Board than the Ministry of Agriculture.
- FONDAM should revise the Strategic Plan in light of the restated purpose.
- FONDAM should take care that sustainable development with an infusion of child survival remains the central theme of the grantmaking activities, and that areas such as agricultural production, extreme poverty, and alternative development, which are not given priority in the establishing documents, do not capture a disproportionate share of the resources.
- FONDAM should rephrase the "Project Philosophy" section of the proposal guidelines to highlight the primary importance of environmental sustainability as the goal of all projects, with gender, equity, participation, diversity, cooperation, and infusion of child survival/child development as supporting activities.

## Continuing Debate

When asked to comment on this interpretation of the language in the establishing documents, FONDAM stated that it believes (1) it *is* following the letter and intent of the mandate; (2) in any case, its *hands are tied* by the Framework Agreement; and (3) that any change should come as a *new directive from the Parties*.

The Evaluation Team recognizes that the language in the establishing documents is not the clearest mandate possible, but further recognizes that the preponderance of evidence supports the strong environment interpretation. The stumbling block is the exact meaning of the phrase, "while encouraging the improvement of child survival and development in Peru." The words "while

encouraging" seem to make child survival and development a secondary thought, almost an after thought.

(If the resolution of these ambiguities is considered important, then the Evaluation Team urges the TFCA/EAI Secretariat in Washington to provide guidance based on the Committee history of the EAI legislation or related determinations by the EAI Board in Washington.)

## **Annex 10. The FONDAM Web Site**

FONDAM maintains a web site at <http://www.fondoamericas.org.pe>.

### **Strengths**

FONDAM deserves praise for creating a web site and making information about the Concursos available for download. This greatly increases the availability of the documents and reduces the cost of their distribution.

FONDAM deserves praise for setting up an e-mail list for announcements. This increases the speed and breadth of its communication with interested parties.

Project titles can be scanned according to the Concurso in which they won and according to the division (environment/child survival/mixed) in which they are categorized.

Luis Torres, the director of grant supervision and monitoring, mentioned that he wanted to post a FAQ (for "frequently asked questions") on the web site that would list the most common errors and the most common omissions they saw in proposals. This would be a valuable addition to the web site.

### **Weaknesses**

The web site is slow to load, in large part because it contains what is politely known as "eye candy" -- meaningless images and flash animations that have little or nothing to do with the core business of FONDAM. At one point during the examination of the web site, the browser reported that it was waiting for 48 images to download.

FONDAM is in the business of making grants to support sustainable development, not the business of proving on-line entertainment. All of the images and animations could be removed with absolutely no loss of content. It can best be described as "busy" when it should be crisp and professional.

FONDAM publications, beginning with the Program Agreement and including the Framework Agreement, Bylaws, Board Decisions, Annual Reports, announcements of Grant Awards, Press Releases, Newsletters, and any other non-confidential reports, should all be available on-line.

Each document link should have a short summary describing the contents and indicating the file size and type.

The scrolling banner at the bottom of the browser should be turned off. Users expect to see displayed in this space the address when the mouse hovers over a link. There is no reason to have the scrolling banner in this space.

The registration process to receive announcements should describe the privacy policy of FONDAM and what use, if any, will be made of the registration information.

Projects currently can be listed by type and by Concurso, but the database of projects should be searchable by keywords. (Many of the titles do a poor job of describing the projects because they seem chosen to mention the maximum number of FONDAM selection criteria instead of describing the projects accurately.) A user will more likely seek all the projects with particular content or all of the projects in a particular geographic area when searching for ideas, rather than according to the arbitrary divisions of environment/child survival/mixed, or the Concurso in which an award was made.

Project descriptions need to provide more information about each project's goals and objectives, cooperating institutions, location, etc. (as long as none of this additional information represents a safety or security risk).

There is no list of the names and positions of the FONDAM staff. Many organizations list the individual staff e-mail addresses here as well their names, but FONDAM has chosen to route all e-mail through the general mailbox at [fondam@fondoamericas.org.pe](mailto:fondam@fondoamericas.org.pe). Not posting the individual e-mail addresses may help to reduce SPAM e-mail, but posting at least the names and position titles would seem to be more user-friendly.

Note: The existing FONDAM web site was developed some time ago by consultants and is scheduled for a major redesign.

## **Annex 11. The Five FONDAM Grantmaking Mechanisms**

FONDAM currently uses four grantmaking mechanisms and has a fifth mechanism under consideration. Each mechanism is described briefly below.

All of the mechanisms share some common elements:

- A general focus on (1) environment, (2) child survival and child development, or a combination of (1) and (2).
- Projects should demonstrate sensitivity to (1) participation, (2) equity, (3) gender, (4) respect for the environment, (5) improvement in child survival and child development, (6) respect for cultural diversity, (7) promotion of inter-institutional cooperation, and (8) sustainability.
- Grant recipients should be NGOs active in the environmental or child development areas, or similar regional and local not-for-profit entities. (While the Framework Agreement allows grants in exceptional circumstances to government entities, the directive for each specific competition generally omits government entities from the list of eligible organizations.)
- A two-step process in which the implementing organization's institutional qualifications are assessed in the first step (the "profile" stage) and the proposal's merits are assessed in the second step (the "proposal" stage).
- A point system for assessing merit, applied separately during a review by two senior technical staff. The score is the average of the two separate assessments unless the two senior staff differ by more than ten points, in which case the Executive Secretary meets with the two staff to determine where the two assessments diverge and to resolve a final score.
- A minimum counterpart contribution of 10% in cash, in-kind, labor, or other services.

### **Current Mechanisms**

#### **"Concurso de Proyectos" or Project Competition**

The "Concurso de Proyectos" is an annual event and the main mechanism used by FONDAM. The grant ceiling is \$100,000. The instructions run to 59 pages, including 15 annexes that contain the formats for the various parts of the proposal.

The Fifth Project Competition, underway at the time of the evaluation, was scheduled to award a total of \$1,500,000 and specifically prohibited government

entities and those organizations with representatives on the Board of FONDAM from participating.

### **Thematic Project Competition**

The targeted or thematic competition is a variation of the annual competition. This has been used only once, in the case of the Fourth Concurso. The "Eco-Negocio" or eco-enterprise or eco-business competition was held in August of 2002. A total of \$500,000 in grants was awarded.

### **"Actividades y Proyectos Especiales" or Special Activities and Projects**

The Special Projects mechanism is a simplified version of the annual project competition. The grant ceiling is \$10,000 so the proposal is simpler with fewer formats to complete. To date, less than \$125,000 has been awarded in special projects.

### **"Cofinanciamiento" or Co-Financing**

The co-financing mechanism allows FONDAM to combine its contribution with similar contributions from other entities to permit the financing of larger projects.

The list of institutions eligible to implement co-financed projects is expanded a little in this mechanism to include "parishes, universities, foundations, etc." under the non-governmental label, as well as "those institutions that demonstrate the technical and administrative capacity." To date, less than \$1,800,000 has been awarded under this mechanism.

### **Future Mechanisms**

FONDAM has an additional mechanism under consideration but not yet in use. FONDAM calls it a "proyecto eje de desarrollo" or "axis of development" project.

### **"Proyecto Eje de Desarrollo" or Axis of Development Project**

An "axis of development" designed with the specific purpose of testing, proving, or demonstrating a new approach or technology, and acting as a catalyzing agent to generate other projects and developments in the same geographic area or using the same technology. In theory, an axis of development project could be used to prove a technology and establish the local capability to produce a new output.

The Evaluation Team asked Juan Gil to describe what FONDAM would consider an axis of development project. He offered the hypothetical example of a project to establish a certification program for sustainable forest products. In this way, forest resources could be managed sustainably, biodiversity could be valued and protected; and local communities could benefit socially and economically.



World Wildlife Fund  
1250 24<sup>th</sup> Street, NW  
Washington, DC 20037  
USA  
Tel: 202-293-4800  
Fax: 202-293-9211  
[www.worldwildlife.org](http://www.worldwildlife.org)

WWF's mission is the conservation of nature. Using the best available scientific knowledge and advancing that knowledge where we can, we work to preserve the diversity and abundance of life on Earth and the health of ecological systems by

- protecting natural areas and wild populations of plants and animals, including endangered species;
- promoting sustainable approaches to the use of renewable natural resources; and
- promoting more efficient use of resources and energy and the maximum reduction of pollution.

We are committed to reversing the degradation of our planet's natural environment and to building a future in which human needs are met in harmony with nature. We recognize the critical relevance of human numbers, poverty, and consumption patterns to meeting these goals.

© 2003 WWF. All rights reserved by World Wildlife Fund, Inc.

Logo © 1986, WWF - known internationally as the World Wide Fund for Nature, ® Registered Trademark owner.