Capable Partners Program Learning Agenda on
Local Organization Capacity Development

LA The Learning Agenda on Local Capacity Development

Country Report Series

#9: Philippines

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PREFACE

This study was conducted in Manila between August 12 and August 22, 2013. A schedule of interviews had been set up that would have involved meetings with 23 organizations plus the USAID mission. However, because of typhoon "Maring" that struck Manila early in the 2nd week, a number of meetings had to be cancelled (USAID itself was closed for two days). Thus the final number was 18 meetings plus two meetings with USAID (see the end of this report for details). Of the 18, 14 were local organizations, three could be termed foreign donors, and one (The Asia Foundation) a combination of partner, donor, and INGO. The interviews were conducted by the author and an attempt was made in each case to have them done in an informal setting and style. USAID had been invited to participate in as many of these meetings as it wished, and had intended to do so in several. However a USAID officer was present in only one of the meetings. There was no structured questionnaire involved. Instead interviewees were encouraged to give their views and opinions on a wide variety of subjects related to donor trends, their own history, challenges, and their views on their and others' capacities. The author thanks Golda Roma and Catherine Hamlin of USAID/P for their help in contacting organizations and arranging some of the meetings.

INTRODUCTION AND COUNTRY CONTEXT

In December 1995, a Filipino government official attending a World Bank meeting in Tokyo coined a new word when he said proudly that the Philippines was in the "process of *entigerment*" which he said would reduce poverty significantly.[1] At that time the government aimed at bringing poverty down to 30% by 1998. Now 15 years later, in 2013, poverty is somewhere between 26% and 28% - little changed, and more challenging than ever with a population today – 97 million and 11 million Filipinos working outside the country – about 40% greater than what it was then.

According to the World Bank, which ranks the Philippines as a lower middle income country, the poverty head count has recently gone up – in 2003 it was 24.9%; in 2009 it was 26.5%. And in its regular bi-annual report on April 23, 2013 the President of the National Statistical Coordination Board said that poverty in the Philippines remained unchanged at about 28% (persons living under the absolute poverty line) since 2006. His partial explanation was the comparatively low growth rate in agriculture (5.5%) and manufacturing (5.7%) compared to 24.3% growth of the construction sector.[2]

Statistics from 2012 show that the Philippines' high overall growth rate (about 7%) neither led to an increase in the creation of new jobs, nor did it reduce the poverty rate. In December 2012 the National Statistics Office noted that in spite of the surprisingly high economic growth in the third quarter, joblessness and underemployment had worsened. In March 2013 unemployment among Filipinos at least 18 years old was at 25.4% – compared with 18.9% in September 2010, shortly

[1] Personal recollection.
[2] Peter Koeppinger, "The Aquino Administration at the middle of its term: assessment of its policies and achievements in key areas," Konrad Adenauer Foundation, May 17, 2013.

after the start of the Benigno Aquino Administration.[3]

In the yearly World Bank ranking on "Doing Business" the Philippines slipped down in 2012 by two places to number 138 out of 183 countries. In the global tax ranking, after being ranked 135 of 183 economies in 2011, the country slipped to rank 143 out of 185 economies in 2012 and is considered to be among the countries where paying taxes is most costly and difficult, despite government efforts at reform.[4] [Where in these data the role of remittances fits remains unclear, but it has to be noted that the Philippines – an exemplar of high remittance flows – brought in official remittances of $21 billion in 2012, greater than all FDI, and, incidentally, almost 200 times the size of USAID's current portfolio of aid.]

It is 18 years since that government official coined the term "*entigerment*," and yet the country remains fairly far from being the next Asian Tiger. How to explain this disappointment?

There is broad agreement that though there has been growth, it has been non inclusive; though the state has improved, and is infused with new energy and considered cleaner, it remains corrupt and weak. People talk about a non-functioning rule of law; about poverty that is not only chronically high, but "hardened," and note how rare the Philippine nation is in the 3rd decade after the fall of the Soviet Union, in continuing to house a Communist insurgency. Some see it as an inward looking, insular society, one that does not identify itself even as "Asian." But the explanation we heard most often was the nature of the country's rule by a finite number of families (in the literature the figure is somewhere between 40 and 100), referred to more often than not as dynasties.

As one foreign observer we met put it:

> *"The Philippines is a colonized economy – but self-colonized; not by foreigners, but by an oligarchy of families; it is not even a truly capitalist country, but an oligarchy. In most of the islands 2 to 3 families control the place."*

A Filipino commentator has written:

> *"Our country still is governed not by laws, not by political institutions but by political personalities. ...oligarchic influence on the highest State organs enables powerful individuals, families and clans to organize monopolies and cartels, tilt the rules of competition in their favour – and acquire privileged access to the rents and commissions generated by public investments...more and more the traditional modes of reciprocity are being replaced by cash-for-votes exchanges. Vote buying has inflated election costs and worsened political corruption... Our country has lagged so consistently behind its neighbours that its critics have turned to cultural factors for an explanation... But ... our problems merely reflect structural defects in our political institutions."*[5]

Context is everything and to understand the Philippines it is crucial. In particular the consensus among those who look at the country's challenges thoughtfully (such as José Almonte quoted

[3] Social Weather Station Survey, quoted in "Business World," May 2, 2013.
[4] Yahoo! News Philippines, December 14, 2012.
[5] José T. Almonte, "We are responsible for one another," Publication of Konrad Adenauer Foundation, Philippines, 2010.

above) cite the political economy of the country, at the core of which is the oligarchy, more than its geography (2,000 inhabited islands of over 7,000 in total), or its singular cultural legacies – 377 years under Spain, and 48 under the U.S., its many distinct languages, ethnic and religious groups – as the realm in which the most important answers lie.

It is this internal, perhaps willful, brake on progress (allowing things to go only so far, co-opting the reformist dialogue and gaining legitimacy by doing good works through family foundations, the interlocking family-based nature of the public and private spheres, etc.) that helps to explain one of several paradoxes that characterize the country. For decades the Philippines, along with its donors, has invested time, money and human resources in getting the "right" things in order so that development on all fronts can proceed. Most people in prominent ranks know what the problems are, there is agreement on many of the things that need to be done – it is not, as it is some other places, a dearth of knowledge, a lack of ideas, or a lack of institutional capacity that is in the way. And yet, despite it all, the country remains in a situation one academic has called "relentless social stasis."[6]

As an officer of a network organization committed to transparency put it,

> *"So many people have been doing anti-corruption and Good Governance work for a long time and we have little to show for it."*

Several people we interviewed pointed to an almost chronic repetition syndrome; re-doing things that have been done before; re-visiting issues that have been stated and agreed before.

Is it, then, as one person we met put it, that *"there's a general acceptance of mediocrity, and thus things stay at a certain level - people ask why bother?"*

Is it more concretely about incentives? As an officer at a major aid donor put it to explain the general lack of good governance:

> *"There's a malaise in the system. In the past there just hasn't been an incentive – 'why bother' has been the attitude – especially since there are not others in the system (like Government itself) that do things accountably. And now the cold hard light of day is sinking in – donor money is drying up – that is what will change things."*

The wheel-spinning, the repetition syndrome, if that is what it has been, is more deeply understood if looked at through the political economy lens. Echoing Thomas Carothers book *Development Aid Confronts Politics: The Almost Revolution*,[7] donors need to re-direct their analytics and their energy, as apparently is now the case with AusAID, (partnering with The Asia Foundation) to deal with political economic realities; to bring a real world approach to the Philippine conundrum – one based on recognition of the centrality of its oligarchic political economy. As an AusAID officer put it, *"the donors risk becoming irrelevant in the reform agenda if they don't begin to move in this direction."*

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[6] Alfred W. McCoy, editor, in An Anarchy of Families – State and Family in the Philippines, Madison, Wisconsin, U. of Wisconsin Press, 1993 & 2009.

[7] with Diane de Gramont, Carnegie Endowment for International Peace, 2013.

The gist of such an approach is to get into the game, messy as it is, interacting with political actors, dealing with specific policies (open skies, port regulations, taxes on cigarettes and alcohol) in specific departments and arenas, working out, iteratively and entrepreneurially, experiments in reform that are, as one of the The Asia Foundation's staffers puts it, "technically sound," and that with time can become "politically possible."

CIVIL SOCIETY

NGOs, CSOs, CBOs – there are probably more acronyms used interchangeably and to some extent cynically (QUANGOs, BRINGOs, BINGOs, COMEANDGOs etc.) in the Philippines than anywhere else. This reflects in part the fact that it is not a new sector, unlike in other countries we have looked at. It suffers from a longer history than we find elsewhere of misunderstanding and mistrust between it and the public and between it and the government.

Though now there are two currents pulling in opposite directions on the mistrust issue: in August 2013, a huge scandal burst open involving government sanctioned funds (Priority Development Assistance Funds or PDAF). These funds – called pork barrel by the media and much of the public – are allocated to Representatives and Senators to give out as they see fit. Billions of pesos were found to have been diverted to scores of bogus NGOs, an enormous scam led by a well-connected but elusive woman named Janet Napoles. The NGO community naturally rose up in defense saying that all NGOs should not be tainted by this scandal. While on the other hand, the last few years have begun to see a revolving door phenomenon – called "crossover" in the Philippines – where CS persons now move into government, and to some extent back out. This has reinforced a realism about the need for partnership between government and civil society and thus tends to temper the traditional distrust.

Looking at the sector as a whole, there are also many of the standard elements one finds in civil society elsewhere. First of all a large number of CSOs registered as such (at least 180,000 organizations of many types); a proliferation of organizations propelled in part by the prospect of outside money, and also by the ease of becoming a CSO – some say it is too easy and that the lack of standards and due diligence is one of civil society's problems. There are several government entities under which one may register – the Securities and Exchange Commission, the Cooperative Development Authority, the Department of Labor, and the Housing and Land Use Board. And of course, as elsewhere, people speculate that large numbers of CSOs are inactive, or have gone out of business altogether – by some estimates no more than 20% of registered CSOs in the Philippines are active.

Likewise, as elsewhere, one notes shifts and lack of clarity in the legal regime around Civil Society, especially those laws governing taxation, which has an effect on philanthropy. And people point often to a chronic problem of 'founders syndrome,' and the extent to which CSOs of all types are personality driven. One of our interviewees said that in the Philippines "*few organizations survive their founders.*" And as elsewhere one hears much about the perennial search for financial sustainability, expressing itself in the desire to form hybrid kinds of structures, combining for-profit and non-profit – revenue generation via fees for services, and consulting income, etc. And of course the 'projectization' phenomenon is widely lamented in the Philippines as it is elsewhere.

But there are significant other notes and themes in Philippine Civil Society that are different than what we see elsewhere and they lead us to a number of paradoxes.

First, for all the enormous size of the CSO sector, it is also small in the sense that many of the players know each other. There is a certain insularity; a 'clubbiness,' especially among the older organizations (and there are many that are 30 and 40 years old). The scores of venerable organizations that are Manila-based, are also more and more part of the country's elite. The directors of many are relatives of politicians, even of the president's family. And interestingly, in what seems like a further tightening of the loop within the oligarchic structure, in recent decades many of the country's large conglomerates have formed their own foundations. The League of Corporate Foundations has 70 members, and this number does not count all that exist.[8] The elite, with more and more interlocking directorates in the non profit realm – in both corporate foundations and traditional non-profits – in a sense dominate the CSO community, mirroring the oligarchic dominance of the commercial and political sectors. Much information about consultants, personnel, potential board members, and fund-raising opportunities is passed around informally through word-of-mouth. One organization talks with a smile about "*friend-raising*" as its fund-raising methodology. Much as in the "establishment" in a developed country, funding is about these relationships, as are invitations to join boards of directors.

And with this comes, fairly naturally, "the usual suspect phenomenon" – the tendency to work and partner with only those who are well-established and have a reputation. One foundation executive warned that any attempt by donors to use the well-known organizations as intermediaries or sub-contractors, while tempting, has its dangers:

> *"With them you end up privileging a certain segment of society, the elite. You really have to include the nascent NGOs otherwise you're just continuing the phenomenon of NGOs as an employment opportunity for the educated middle class."*

But, he admits, finding these nascent groups take some digging.

The complex mix of informal ties, clubbiness, and perhaps also the strong Christian beliefs of most Filipinos may explain another phenomenon that appears striking, the extensive investment in and reliance on volunteerism in the sector, more than we see in the other countries where we have conducted research.

And the same complex mix helps to explain how it is that some CSOs are financially self-sufficient. Several networks and associations have endowments that more than cover their operations. In one case, an association was able to build an endowment fund rather quickly by simply asking each board member to contribute the equivalent of about $20,000, which they did. And as a result, the ED told us, "*we're sitting pretty.*"

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[8] See http://www.lcf.org.ph/

The Management Association of the Philippines (MAP) has been around for 60 years or so. It is an NGO, an organization of some 800 individual members (professional business executives) who reportedly pay about 25,000 pesos in annual dues (which adds up to about $465,000 a year). MAP's own endowment is about $86,000; its income widely exceeds its expenditures, and its December, 2012 financial report suggests overall assets of about $655,000. It is fully self-sustaining and in addition to dues, makes money by charging for training, for participation in big conferences and for speaker events, bringing in speakers on management issues from all over the world.

Indeed there are many big and medium-sized CSOs and networks that have diversified funding, are well known, and do more than just survive. There are hybrids like the faith-based Center for Community Transformation (CCT) with total assets of about $23 million; an organization that relies hardly at all on outside donors; makes money from its microfinance services, and combines several legal structures under a holding company. Or PBSP, a venerable organization that is diversifying and beginning to think of itself as seller of services and as an international aid contractor. Quite a few have solid leadership and knowledge of what is going on inside and outside the country. MAP members are well-versed in talking about the "balanced scorecard" method for performance measurement, or the concept of shared value, having not only regularly read publications like the Harvard Business Review, but heard in person speakers like Robert S. Kaplan from Harvard. Indeed the striking thing about the country as a whole – reflected in the CSO sector's more established members – is the high level of education and exposure and the huge skill base. This comes not only from the U.S. orientation – many business executives have a U.S. Education – but from local institutions of higher learning. Manila alone is home to a number of world class educational institutions specializing in management and organizational development (OD), including non-profit management, such as the 45 year old Asian Institute of Management (AIM) which houses the Center for Development Management, the Graduate School of Business of Ateneo de Manila University, and the University of Asia and the Pacific, to name a few. One gets the impression that a great many Filipinos are as fluent in 'state of the art' organization development and management as anyone in the world.

ORGANIZATIONAL CAPACITY AND A CAPACITY PARADOX

Likewise, a large number of Filipinos in the CSO sector would appear to have had as much training as anyone in the world. Most donors in the 1980s, especially in the heyday of activism following Marcos' martial law period, (1972-81), the Aquino assassination in 1983, and culminating in the "People Power Revolution" of February 1986, invested in capacity development. CIDA in the 1980s ran many such projects, as did most other donors including USAID. This was a period of activism, coalitions and movements, land reform and the mobilization of tens of thousands of farmers. One NGO veteran of the time who we spoke with calls it civil society's *"romantic period."*

And a great many of the venerable organizations around today do training of their own, much of it on "OD 101" kinds of topics. The Asia Foundation, CODE-NGO, The Association of Foundations, the Management Association of the Philippines, the Transparency and Accountability Network (TAN), Philippine Business for Social Progress (PBSP), the Makati

Business Club – indeed, the majority of the organizations we met do some kind of training for their members or for their constituents as the case may be. There are also many handbooks and manuals on OD produced (and available) worldwide over the years, including ones produced locally like PCNC's *"Handbook on Organizational Functioning for Small NGOs*."

And yet we heard repeatedly that the CSO sector is weak in organizational development (OD), especially in governance and financial accountability; that CSOs don't have systems, they don't know how to plan, to budget, to recruit; they lack foresight; they are unprofessional. And these are not the words just of the outside critics like this European who said: *"It's a lack of procedures, systems – it's not conscious – they just don't know any better."*

This notion of "*they don't know any better"* was echoed a number of times, including by Filipinos, such as the director of the Association of Foundations, who told us:

> *"Our big message [to our 127 members] is that you have to comply. As to why they don't, mostly it's simply that they forget; they don't know any better; you have to grind it into them – look guys, you have to do this – that is what good governance is all about."*

Others explain it using the "activism" excuse we used to hear among U.S. PVOs in the 1970s. As the head of the Philippine Council of NGO Certification put it:

> *"The problem with most CSOs is that they are basically activists and program people – that is their focus, not management systems etc. Founders don't have time and haven't put anything in writing – they try but their interest is programs."*

The head of CODE-NGO, the apex organization that is the only network of networks in the country, chalks it up to a kind of collective dormancy,

> *"We all tended to relax when adversity started to go down, now that things are less challenging."*

Are we looking at a case of "water, water [read "training, training," or "capacity, capacity"] everywhere and not a drop to drink?" For clearly there is capacity in the Philippines, there has been a lot of OD type training over many years, and of course the basics of OD are not rocket science. And there are also other explanations to add to the ones just mentioned, but none, significantly, have really to do with a fundamental lack of capacity.

For example there is the possible role of ambivalence, pride, or even a sense of entitlement, that might result in an organization simply feeling that the installation of basic OD systems is beneath them.

A four year old struggling organization that sees itself as a hybrid think tank, advocacy organization and implementer, is ambivalent about where they fit, but fairly clear about not wanting to identify with the CSO community: one of its staff says *"we try to avoid the insignificant many,"* and explains that most CSOs have no impact and do very little.

The Asia Foundation (TAF) tells the story of a religious leader who asked that TAF show more respect for "our honor." When asked for an explanation of how such respect ought to be manifested, the leader replied "*Don't ask us for receipts*."

A 30 year old advocacy organization led by prominent Filipinos tells us:

> *"We're not trained to do proposals in the standard way. There is a disconnect between what the donors require and what we want to do. We don't want to be used by others. The donors are too preoccupied with form rather than substance. They should not ask us to fill in a standard form with our track record. Everyone here knows who we are and what we have done. They should first do their homework."*

And finally we get down to the most concrete of explanations – resources, both human and financial. The head of PBSP says:

> *"It's really about resources; really about warm bodies. You need to have the people to do these things [manage systems], right now everyone is multi-tasking. We (PBSP) have enough projects to justify full-time professional people and specialized units and thus we can be efficient and compliant – scale is the key."*

Take the case of TAN, the Transparency and Accountability Network, a very lean organization that is suddenly struggling. In keeping with the 'projectization' phenomenon we have described in other countries, most of their projects, which were all short-term, are coming to a close. They need about 1.5m pesos per year to keep going ($35,000). This is a relatively small amount of money but they are not finding it easy to fund. They told us that Anti Corruption and Good Governance are hard to sell; not as "sexy" as children and health, but still, these

> *"…are big topics now and so there are quite a few players, but there's not much money around so the competition is strong. We are all sourcing from the same well and it is shallow. Even our members are looking for similar funds."*

This is a network that is at risk of falling into the trap of competing with its own members, and they appear to be aware of it.

The small staff all multi-task, including looking for new donors. And they admit that they did not see this dilemma coming. They admit that their ties with others are not very active ones, and they did not think about expanding or strengthening their contacts till now. And they are hampered because they do not have PCNC certification, but say they are "*trying to work that out*." They admit that they have not done a good job on strategy, or on value for their members, nor on coordination of the membership.

Interestingly they were part of the CSO Capacity Strengthening project (A USAID project awarded to a consortium of five Filipino organizations under the AYALA Foundation) – and went through the training cycle in May and June of this year.

> *"We learned we have to make many improvements, for example, we need to have a more active and engaged Executive Council, and we need a fundraising person, and to do more promotional work. But the main thing is the Executive Council has to be more involved.* [But, our interviewee adds..] *"..it's really hard. I've been trying to meet with them as a group for months without success. I've had to meet with them as individuals. Naturally they think of their own organizations first and only then of us; they are busy and have no time."*

These dilemmas seem indeed to be very much a function of lack of time and resources available for core functions.

Finally there is the issue of the changing marketplace for talent, and the changing preferences of talented people themselves; a theme we have noted practically everywhere, and one that is not yet much discussed by donors, although its importance for the future of civil society is paramount.

In the Philippines the issue is exacerbated by several factors: first is the established tradition of leaving the country to seek work, second is the number of options talented Filipinos have to gain higher degrees outside the country, especially if they have family in the U.S. Finally, and less particular to the Philippines is the skewed nature of salaries between working abroad, working in the world of commerce, and working in the non profit world.

Thus while many acknowledge the high caliber of Filipino talent, as one of our interlocutors put it, *"much of it is not here in the country."* Another echoed this, using almost the same words:

> *"The big issue with capacity is that it isn't here – it's out there. Filipinos are all over the world – the salary issue is at the heart – if you worked for the UN and you come home you get pushed way down to a local salary."*

Another person who knows USAID well said:

> *"When a DAI or others like it leave the country, they don't leave behind a capacity gap. The capacity was local anyway – the heart of the problem is salary. The tendency for someone who worked for an INGO or a big U.S. contractor is to move out and up – and not come back. That's why you find Filipinos running projects in many other countries. The local organizations here cannot afford them."*

And another executive director said:

> *"People with certain degrees, you just cannot keep here; I can't have a financial person with an accounting degree for example. They will not work for what I can pay."*

Implicit in this dilemma lies another capacity paradox: The decades-long relationship between educated Filipinos and the development industry has produced a cadre of people who know (and accept) the rules of the game. They can write proposals, run projects, train others, communicate with donors and partners. As one person put it succinctly, *"they can go up and down the log frame."* The problem is that with rare exceptions – the COP of the Ayala Foundation CSO Capacity Strengthening Project told us she took a 60% salary cut to run this project – they do not want to work for local organizations.

A MAP board member told us:

> *"The young – the best and brightest cannot get a decent salary in the non-profit sector, it's a dead end job. There has to be a competitive compensation."*

And the Executive Director of PCNC noted the shift in preference of the young – where idealism was once a compensation for low salary, but is no longer:

> *"The romanticism is gone after the martial law period. Then it was low pay slave work; now that is not attractive to youth. "*

Of course – all the above explanations of the capacity paradox notwithstanding – there **are** CSOs that genuinely lack standard OD kinds of capacity; organizations without a proper accounting system, Boards of Directors who do not understand their fiduciary responsibilities, executives who hire friends of friends or relatives regardless of merit, and indeed quite a few CSOs who do indeed "not know any better." And as some of the participants in the USAID /AYALA CSO Capacity Strengthening Project have said – the OCA (Organizational Capacity Assessment) helped them to see themselves in the mirror and realize there were systems they did not have and could well use. And there is self-criticism. A relatively young CSO that does advocacy said:

> *"It is essential if you are going to talk about transparency to put your money where your mouth is by having regular submission of reports and a BOD that is responsible. Also we (CSOs) don't measure things enough. We confuse media coverage with impact – there are too few coordinated NGOs here. Indeed the government is now saying 'we've opened up the budgeting process to you but we've got no takers [no CSOs ready and willing to engage with them on budget issues.] We've got to go from shame and blame to engagement."*

And at least half of our interviewees pointed out that times are harder now, donor money is drying up. In fact, since the Ford Foundation left the Philippines in the 1990s, there have been a number of other exits, such as the Dutch and the Scandinavians, whose contributions are smaller and now come from their embassies. And those that remain have cut back including CIDA and INGOs like Christian Aid and Oxfam. The only bilateral that is increasing its aid in any significant way appears to be AusAID; though apparently the EU has opened up some windows for CSOs and USAID is seen as a bit more active. Not only is there is more motivation to shape up in order to survive, one has to become tough minded too. An Executive Director told us:

> *"Now it is survival of the fittest, many [NGOs] have folded. NGOs have to become professional – good heart not enough. My advice to them is keep a core staff but don't hire too many full time permanent people because you may have to let them go. You have to be aware of the legal requirement to fund retirement and pension. So if you have few permanent staff, you reduce your future cost danger."*

Perhaps more than elsewhere the situation of CSOs and their capacities in the Philippines brings home the importance of seeing organization capacity in a more complex way. Hence the conclusion for donors is to be more humble about what they believe is needed and how to deliver it. The idea that capacity development needs to be custom-tailored is reinforced, as is the concrete reality that capacity – besides being about systems, procedures and the other subject matter of OD 101 – is very much about the resources to keep an organization running and to hire the right people to do it.

DONORS AS VIEWED BY CIVIL SOCIETY

The broad view in Philippine CS, again as elsewhere, is that the donor community needs to see CSOs as real partners, and to treat them as such. A few of our interviewees feel that many donors continue to see CSOs one-dimensionally, as implementers that exist to carry out donor preferences, projects and programs.

At the heart of the one-dimensional view may well be donor lack of understanding of how they themselves, with their money and their often complex rules, have created distortions in the CSO community and its ecosystem/marketplace. As noted earlier, a concrete issue is salaries, consulting rates and donor imposed ceilings on these, often arising out of a view that "locals" should be cheaper than expats. The few CSOs we met who have had direct contracting experience with USAID for example, note the destructive potential of a two-tiered construct of salaries and consulting rates. One CEO pointed out bluntly that

> *"These disparities can destroy the community – they push people to play games and misrepresent. For example, you get your higher rate by charging more days than you actually worked, but at the lower, donor allowed, rate. This is the opposite of what the donors want to instill in us."*

Similarly, CSOs we met complain about the 'projectization' phenomenon, and in particular about the perceived unfairness of how they, as opposed to international organizations, cover their overhead costs. The head of a CSO, a local sub-contractor under a U.S. contractor laments:

> *"After the project is done there is nothing left over – it is the [U.S.] contractor who "enjoys" the multiplier [the NICRA]. And when [our first] project ended, we were not yet three years old and so we couldn't qualify for some other projects where the minimum requirement was to have been in existence for three years. So we had nothing. We began to realize we had quickly become completely dependent on USAID. We realized we couldn't build any reserves this way and of course we didn't and couldn't pay enough attention to other funding sources. We had no funds to train and develop our people, or to keep them on while we applied for new work. We survived the six months between the end of the [old project] and the [current one] because one of our Board members supported us- indeed he is the source of the benefits we pay to our staff – who are technically speaking consultants – and thus not eligible for benefits."*

A veteran of NGO work with years of exposure to foreign donors says:

> *"Donors need to provide overhead; they can tell us fix your systems, but then make us equal partners; the donors need us; so incentivize us – tell us if you come up with a resource mobilization plan and can begin on that, we'll chip in and fund one person and in this way help you meet your target."*

Another CSO leader talks about the need for donors to play a role in promoting exchanges in the interest of learning more business-like approaches to development challenges:

> *"Social entrepreneurship is the growing thing in Vietnam, Hong Kong, and elsewhere, but donors don't facilitate enough exchange. They should engage in supporting sabbatical policies so CSOs can move people around, the way big industrial companies like Nissan and Toyota do."*

And as in some other countries we visited, there is both ambivalence and resentment about foreign contractors as "primes." We heard, as we did elsewhere that the main value of having a foreign "prime" is 'protection' – they function to protect local "subs" from hassle; they "cover" for the local organizations, and furthermore, by allying with them as "subs" the locals too can learn the ropes: *"they know the USAID rules and can guide us to become compliant."*

The ambivalence comes in because only a few CSOs really want to be "primes" themselves. Most are either wary, a bit afraid and insecure, or simply don't want the extra work involved.

But the prevailing view, again as elsewhere, is that foreign 'primes' bring little in the way of substantive skill or technical knowledge that Filipinos do not have. In one interview with three staff members of a sub-contractor we asked bluntly what their prime contractor brings to the table. There was a pause and then a resounding laugh, and then a somewhat diplomatic statement that [the prime] is after all a "network of worldwide professionals." Another pause, and then one of those present said *"well, really they add nothing, they are just here to make a profit, they bring nothing in terms of Philippine development."*

And of course, from the standpoint of a donor like USAID, there are legal reasons to prefer a U.S. prime, and a U.S. COP. In the case of its project work in Mindanao – a troubled area – USAID has preferred a U.S. organization as the awardee of a project because of a heightened risk of things going wrong either in the fiduciary or other sense, and simply, the USG has legal recourse with a U.S. organization and an American COP, whereas it does not with a local organization.

In fact the Mindanao situation points directly at the heart of the capacity concern that USAID is trying to deal with through its CSO Capacity Strengthening project, and that is the concern to ensure that U.S. taxpayers' money is protected from financial risk. And where financial risk is perceived as heightened, as in Mindanao, not just donors like USAID, but also INGOs tend to close their "partnership" doors. CODE-NGO reports that in Mindanao INGOs set up their own offices rather than partner with local organizations.[9] We thus come back to a question many donors have yet to deal with, and that is <u>capacity for what and for whose benefit</u>? If CD is basically for the benefit of the donor – however justified that may be in terms of its own constraints, then we are at best meeting the situation only half way.

We have already quoted a number of interviewees who pointed to a tougher, more competitive, leaner time in the CSO funding realm. It is this sense that they have now to "shape up" in order to get donor money that explains a striking absence of any real pushback against the donors. CSOs we met with have complaints, wishes and suggestions, but no one is really saying that donors must fundamentally change the way they do business. The thread running through all our interviews on the subject of donor-CSO relationships is a tendency to accept things on the donors' terms. By and large the sense we got was that if there have to be changes, the onus is on the CSOs not the donors. This came home in our observation of the CSO Capacity Strengthening project. There was little questioning of the value or applicability of the 60 indicators (see Mini case #14), though there was a lot of argument about particular scores (naturally no one wanted a low score). But there was little questioning about whether the exercise makes sense for a lot of these organizations. Rather they seem to accept the unspoken premise that it makes sense really

[9] CODE-NGO notes that one of its members there complains that a result has been poaching of local organization staff.

for USAID – after all the stated goal of the project is to have 90 CSOs able to pass USAID's "pre award survey," and as the COP explains the indicators and the subject matter trained are all geared to that end. In short the exercise is about compliance with USAID. That is the starting and ending point, rather than the question of who you are as a CSO, what is it you want to do, what it is you think you need in order to be more effective in your work?

One officer in another donor organization said that the apparent reluctance to speak up more forcefully is a combination of politeness, disillusionment and not wanting to bite the hand that feeds them, and also that there has been so much dependence built up over such a long time. He adds that *"the donor context hasn't made it easy to be creative."*

USAID

USAID in the Philippines is viewed positively by almost everyone we spoke with. Its commitment to the country is appreciated and understood. At the same time no one we met thinks of it as donor willing to take risks on new kinds of relationships, or to experiment with new ways of doing things. It is seen as a traditional donor, with rules and regulations that are more daunting than most others.

We asked people about their views of USAID, and to think about what they would suggest to the agency if they had its ear.

The founder of a faith-based CSO with years of experience with the donor community going back to the 1980s does not want to have much to do with USAID – for her the price in terms of compromising the organization's mission is too high:

> *"The source of funds determines your results if you are not conscious about it. There is just no point in carrying out someone else's agenda"*

But if she were to give advice to USAID it would be this:

> *"Look for passion and the vision and the fortitude to stay. Certain kinds of work are not built on good organization – yes, to scale up you need systems, but that is not the essence that's needed to help others become what they can become. You have to see what is already being done and build on that."*

The head of a European foundation says simply the most important lesson in development aid is: *"You cannot tell people what to do."*

The director of a network says:

> "*You have to take the time to understand how they think, it's not just about the formal controls on the money – you have to attend, observe.*"

Another interviewee, who works with a donor says that donors like USAID have *"to focus on the work that CSOs do best – and this means organizations that are not tied in knots with USAID."* He argues implicitly that USAID cannot realistically work at a retail level with a significant number of local organizations, they are not structured to do it, and the Mission Director herself seems to agree with this. There will have to be an intermediary organization to deal with the compliance issues.

The same interviewee from the other donor continues:

> *"Everyone, CSOs included, is frustrated, thus there needs to be a major change in how we do things. We need to deconstruct how we interact and engage with Civil Society, to get away from seeing CSOs in terms of service delivery and carrying out the advocacy for things the donors believe is necessary. The political economy of aid needs to be taken into account. We (the donors) need to reduce the use of contractors; to get involved more directly with their partners. To do that means we must interact; have a regular dialogue and see each other as partners. This is in contrast to the typical aid management approach where the donor officer just wants to see the quarterly report."*

Donor colleagues are sympathetic however. They do not blame USAID for its constraints. One 40 year veteran of work in the Philippines empathizes with the fact that USAID people find it hard to get out to the field. That is a reality dictated by the nature of the work staff are required to do. In his view, *"if you're the AOR, at best you get out to the field once a month."*

RECOMMENDATIONS

Much can be done within the existing structure of USAID/P to build relationships with the CSOs, whether they will eventually be direct grantees or not.

1. Attitudes, Empathy, and Timeliness

There are some attitudinal fixes to be made, if one goes by what some have said who have worked in USAID projects. USAID could do more for example to acknowledge (and empathize with) the fact that the situation of a new small local organization is different than that of a large INGO or US contractors. In the COMPETE project for example, REID, a significant sub-contractor, apparently had to wait four to five months after the official beginning of the project in April, 2013 to get its first money and in the meantime had to ask its staff to work without pay. USAID rules are very strict regarding the contractors' adherence to a tight timetable of submissions. Yet apparently it does not do all it can to reciprocate by adhering to as tight a timetable as it demands of its grantees or contractors.

According to REID, while it met the strict deadline to submit its first year work plan, for its part USAID did not approve the plan until five weeks before the end of the first year, some seven months after REID's submission. Timeliness is thus a USAID problem, and it is one we have heard often in our discussions with organizations in other countries. And the price paid for lack of timely responses or financial flows is the continued feeling on the part of local organizations that they are not seen as partners.

2. An Open Door for Communication

To alleviate this perception there could be an 'open door' through which key Mission staff could be approached when there are problems or issues. We heard from two organizations that they are not supposed to have contacts in the Mission. And according to what we were told by REID, someone from USAID said to them *"Subs don't exist as far as we're concerned."* There are legal reasons for arms-length relations, but that does not mean that some sort of mechanism cannot be devised to allow an avenue of communication that would not compromise the legal constraint. It is ultimately a matter of political will at the mission level.

3. Research and Dialogue on the Enabling Environment for Civil Society

USAID/P could play a convening, brokering, thought-leadership role in fostering changes in the enabling environment for civil society.

3.1 Financial Sustainability. There appears to be a need for a platform for dialogue, and for basic research on core CSO issues, beginning with the concrete matter of financial sustainability. USAID could take the lead on this by organizing and facilitating an initial meeting/conference in which CSOs could talk about and explore both traditional and creative ways to work with donors to help them build endowments, for example. It could initiate research on hybrid legal structures which would allow CSOs to undertake different kinds of activities that bring in revenues, while carrying on their non-profit work.

3.2 Salaries and Consulting rates. The compensation issue is a serious one. USAID could be working on this as another civil society enabling environment issue. It could start by leading an effort to get at the specifics of the matter, launching for example a survey of salaries in different sectors, or pulling data together from existing surveys, and generally getting a better understanding of the realities behind salary discrepancies, including looking at which issues may be spurious ones and which genuine.

3.3. The issue of overheads/indirect costs. Even if a full NICRA is not yet possible for local organization partners, experiments could be undertaken with individual partners to devise substitutes for an overhead rate. For example, a particular position in an organization could be funded on a graduated cost share basis, so that say, a fundraising person's salary would be 90% supported by USAID in year one, 60% in year two, and 30% in year three.

3.4. Volunteers. One of the special features of CS in the Philippines is the high use of volunteers. Research could be done to understand who they are and why they volunteer. What is their profile? How to expand the volunteer base, how to orient volunteers, and how to enable volunteers to become paid staff could also be subjects looked into. And what are the pros and cons of such a human resource pool?

4. Bridging different views of Contracts and Program Staff

USAID Contracts staff and program staff have different orientation, qualifications, job descriptions, and responsibilities. In a typical USAID Mission, they also often have a different view of local organizations, and even a different corporate "culture." There could be experiments undertaken to bridge these differences. For example, on a voluntary basis at first, such staff could be internally "exchanged," with a program person sitting in the contracts office for a month, and vice versa.

5. Incentivizing Interaction with CSOs

USAID staff feel quite stretched- no one feels there is a lot of discretionary time. Getting out to the field takes planning and logistics, and the good intentions to do so are often thwarted when other things take priority. Ways could be experimented with to incentivize field visits by direct hires and FSNs – from creating an "interaction month" each year, to including field visits as a high value elements in a person's performance appraisal, to compensations like extra leave time if a staff makes a field visit on a weekend or on personal time.

6. Training Reform

USAID could lead in the area of training reform. Pretty much everywhere there is "training fatigue." The capacity development literature talks a lot about the importance of horizontal learning approaches, about coaching and mentoring; about the need for customized approaches to CD. As elsewhere training has become standardized and more are questioning the value of traditional workshop based trainings. But even fairly standard types of training can be improved. The present CSO Capacity Strengthening project covers too much too fast, and with little attention paid to pedagogy, and rather more attention on the numbers – a case, fairly typical of much CD training going on, of quantity taking precedence over quality. It, or successor projects, would benefit from applying a case study approach, making the interactions more Socratic and less class-room lecture, that is basing the discussions on real time, real problems experienced by specific organizations, and allowing for more peer to peer follow up.

Mentoring is much talked about everywhere but as the above project has learned, it takes dedicated management and time to do it right. Mentors need to be incentivized to work regularly with their mentees, not just visiting them once every six or eight weeks.

USAID could look into helping to found (and perhaps fund) a retired "executive mentor corps," which would place such people in organizations for varying lengths of time.

Exchange types of capacity development – study tours, cross visits, secondments – if carefully prepared with careful selection and follow-up, are very effective ways of developing capacity and can be relatively cost-effective. USAID/P could play a brokering/fostering role in such arrangements. Indeed, study tours, exchanges (e.g. the farmer to farmer program) and other "participant training" programs have been part of USAID's portfolio for almost its entire history.[10]

Finally, perhaps the most efficient way of maximizing horizontal learning is the incubator or accelerator approach. This is where a number of organizations share a physical space and thus

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[10] see the Learning Agenda's historical overview of USAID's capacity development efforts since the 1970s, (by Nilou De Silva, Part One, by Diane Ponasik, Part Two), to be finalized in fall, 2013.

lower their rent, utilities and other fixed costs, and also by their proximity to each other begin spontaneously to learn from each other, again in real time, real problem oriented, as-the-need-arises ways. There can be many variations on this type of approach, from one where there is little intervention, to ones where the organizations share certain functions, such as one shared accountant who uses the same system for each of say three organizations.

7. The Wholesale Retail Debate

In almost every Mission this research project has visited, it is pretty clear that the Mission's own capacity to manage a 'retail' approach to direct granting with local organizations is limited. Assuming that there are real limits on how much USAID can really change (and simplify) its rules and regulations, it will continue to need to use a 'wholesale' approach in most cases. And while it seems reasonable to expect a reduction in the reliance on U.S. contractors and INGOs as intermediaries ("primes") there needs to be more of a dedicated effort to prepare the ground for local intermediaries to take over. Again an experimental approach is recommended; for example create a prime apprenticeship model where two or three interested local organizations (including networks) would work under the tutelage of an experienced prime for a specified period of time, practicing as it were the elements of compliance systems USAID requires.

USAID/P is doing a lot of things that move in the directions implied above – it needs now to focus more on the quality of its work, and to base everything it does on the principles of country ownership. This will mean investing more in building relationships with the civil society sector that have at their heart the idea of strengthening them as local organizations, and not just as grant recipients who know the ins and outs of USAID.

LIST OF ORGANIZATIONS AND PERSONS INTERVIEWED

8/12/13 - **USAID**
Gloria Steele, Mission Director
Catherine Hamlin
Golda Myra Roma

8/13/13 - **KYTHE**
Fatima Lorenzo, Exec. Dir.

8/13/13 - **PCNC** (Philippine Council for NGO Certification)
Luis Morales, Exec. Dir.

8/13/13 - **PBSP** (Philippine Business for Social Progress)
Raphael C. Lopa, Exec. Dir.
Jazmin Gutierrez, Director, Training and Consulting Group

8/14/13 - **Association of Foundations**
Oman Jiao, Exec. Dir.

8/14/13 – **Ayala Foundation, Inc.** (and two participating CSOs)
Marissa N. Camacho, Chief of Party, Strengthening the Capacity of CSOs Project (USAID Contractor)
Trainer Vicki

8/15/13 - **Incite Gov**
Maxine Tanya M. Hamada, Exec. Dir.

8/15/13 - **Friedrich Naumann Foundation**
Jules Maaten, Res. Rep.

8/15/13 - **CCT** (Center for Community Transformation)
Ruth Callanta, President

8/16/13 - **CODE-NGO** (Caucus of Development NGOs in the Philippines)
Sixto Donato C Macasaet (called Dodo), Exec. Dir.
Roselle Rasay, Program Specialist for Membership

8/16/13 - **The Asia Foundation**
Steve Rood, Country Rep.
Ky Johnson, Deputy Country Rep.
Jaime Faustino, Program Director, Economic Reform and Development Entrepreneurship

8/19/13 - **Transparency and Accountability Network**
Reylynne de la Pax, Operations Mgr.

8/20/13 - **Konrad Adenauer Foundation**
Mr. Peter Koeppinger, Resident Rep.

8/20/13 - **AusAID**
Andrew Parker

8/21/13 - **Management Association of the Philippines**
Mr. Rex Drilon

8/21/13 - **REID** (Research, Education and Institutional Development Foundation, Inc.)
Cherry Lyn Rodolfo, Exec. Dir.
Ronilo Balbieran, Consultant
Czen Alfie Bice, Consultant

8/22/13 - **USAID**
Golda Roma
Cathy Hamlin
Gloria Steele
Reed Aeschliman, DMD,
Yohannes Araya, Office Chief, Reg. Fin. Svces. Center
Ann, Summer Intern

8/22/13 - **Namfrel** (National Citizens Movement for Free Elections)
Corazon S. de la Paz-Bernardo, Chairperson
Damaso Magbual, Pres.
Eric Jude Alvia, Secy. Gen'l.

18 Orgs; 27 individuals, plus 7 USAID personnel