

CONFIDENTIAL
INTERNAL USE
DISCLOSED OVER TIME

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

CHILE

**STRENGTHENING TOOLS FOR GOOD PRACTICES IN NONPROFIT
ORGANIZATIONS' RESULTS MEASUREMENT AND TRANSPARENCY**

(CH-M1061)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Estrella Peinado-Vara (MIF/MIF), Project Team Leader; Fernanda Lopez (MIF/MIF); Carolina Carrasco (MIF/CCL); Omar Villacorta (MIF/ATM); Maria Elena Nawar (MIF/DEU); Laura Torà Carod (MIF/KSC); and Luciane Juliani (LEG).

This document contains confidential information relating to one or more of the ten exceptions of the Access to Information Policy and will be initially treated as confidential and made available only to Bank employees. The document will be disclosed after a period of five (5) years.

CONTENTS

PROJECT SUMMARY EXECUTIVE SUMMARY

I.	BACKGROUND AND RATIONALE	1
	A. Diagnostic assessment of the problem to be addressed	1
	B. Beneficiaries	3
	C. Contribution to the MIF mandate, Access Framework, and IDB strategy	4
II.	OBJECTIVES AND COMPONENTS	4
	A. Objectives	4
	B. Description of the model/solution/intervention	4
	C. Components	6
	D. Project governance and execution mechanism	8
	E. Sustainability	8
	F. Lessons learned from the MIF and other institutions for project design	8
	G. MIF additionality	9
	H. Project outcome	9
	I. Project impact	9
	J. Systemic impact	9
III.	MONITORING AND EVALUATION STRATEGY	10
IV.	COST AND FINANCING	10
V.	EXECUTING AGENCY	11
VI.	RISKS	13
VII.	ENVIRONMENTAL AND SOCIAL IMPACT	13
VIII.	ATTAINMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS	13
IX.	ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY	13

PROJECT SUMMARY

STRENGTHENING TOOLS FOR GOOD PRACTICES IN NONPROFIT ORGANIZATIONS' RESULTS MEASUREMENT AND TRANSPARENCY

(CH-M1061)

In Chile, nonprofit organizations employ 5% of the labor force and account for 1.5% of GDP—making Chile's the largest nonprofit sector in Latin America.¹ Chile is one of the countries where conditions are most conducive to giving: in 2013, donations totaling US\$16 million were made to the *Fondo Mixto* [Combined Fund] by more than 350 donor companies that supported over 500 projects across every region of the country.

Nonprofits supplement government education, health, social services, and community development programs for the lowest-income and/or vulnerable population groups. From 2009 to 2013, the MIF developed the *Transparentemos* project, which focused on raising awareness among 109 nonprofits and 2,000 individuals in the third sector on the need to adopt transparency standards and results measurement models. Although the project was quite successful and forged consensus on the need for transparency standards, it did not have any elements directly involving donor reporting and decision-making.

This project seeks to address the dearth of tools for improving nonprofits' management and transparency and providing systematic, easily verifiable information for private donors. The lack of such tools holds consequences for the volume of resources given as well as the impact and efficiency of the programs implemented by nonprofits.

Fundación Lealtad Chile will execute this project, which will focus on the implementation of a diagnostic tool to evaluate nine principles of transparency and good practices for building nonprofit capacity and facilitating donor decision-making. Through this initiative, 115 nonprofit organizations and 15 corporate donors will adopt the model and participate in a web platform open to the general public that will post verified information and the projects and initiatives supported by the corporate donors.

The project will encourage the adoption of transparency standards and strengthen the networks of nonprofits created with *Transparentemos* and will be implemented in line with the Chilean government's pro-transparency initiatives.

¹ Total employment as a share of the economically active population.

ANNEXES

- Annex I Logical framework
- Annex II Summary budget
- Annex III Quality for Effectiveness in Development (QED) matrix

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE TECHNICAL FILES

Annex IV	Itemized budget http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39693976
Annex V	Preliminary list of milestones
Annex VI	Diagnostic needs assessment of the executing agency http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39692528
Annex VII	Project status reports, achievement of milestones, fiduciary arrangements, and institutional integrity
Annex VIII	Procurement plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39692537
Annex IX	Schedule of activities
Annex X	Operating Regulations
Annex XI	Project Coordinator terms of reference
Annex XII	Monitoring and evaluation plan for impact evaluation

ABBREVIATIONS

CSO	Civil society organization
FLC	Fundación Lealtad Chile
ICD	Instituto de Comunicación y Desarrollo [Communications and Development Institute]
NGO	Nongovernmental organization
PSR	Project status report

CHILE
STRENGTHENING TOOLS FOR GOOD PRACTICES IN NONPROFIT ORGANIZATIONS' RESULTS
MEASUREMENT AND TRANSPARENCY
(CH-M1061)

EXECUTIVE SUMMARY

Country and geographic location:	Chile, nationwide implementation.		
Executing agency:	Fundación Lealtad Chile.		
Access area:	Access to Markets and Skills.		
Agenda:	Linking small firms to value chains.		
Coordination with other donors/Bank operations:	Fundación Lealtad Spain and corporate donor representatives.		
Direct beneficiaries:	115 nonprofit organizations that adopt good practices in transparency and results measurement.		
	15 corporate donors that take into account good practices in transparency and results measurement when allocating resources to nonprofits.		
Indirect beneficiaries:	Nonprofits and donors, both private and public, will have new methodologies and tools available for enhancing transparency and results measurement in the sector.		
Financing:	Technical-cooperation funding:	US\$369,042	54%
	Investment:	-	
	Loan:	-	
	TOTAL MIF CONTRIBUTION	US\$369,042	
	Counterpart funding:	US\$319,688	46%
	Cofinancing (where applicable):	-	
	TOTAL PROJECT BUDGET:	US\$688,730	100%
Execution and disbursement timetable:	Execution period:	36 months	
	Disbursement period:	42 months	

Special contractual clauses:

As conditions precedent to the first disbursement: (i) evidence of the availability of counterpart resources must be furnished; (ii) the proposal must be validated with the private sector entities and national networks of nonprofits; and (iii) the Project Coordinator must be appointed.

Environmental and social impact review:

This operation has been pre-evaluated and classified in accordance with the requirements of the IDB's Environment and Safeguards Compliance Policy (operational policy OP-703). Given that its impacts and risks are limited, it is proposed that this be classified as a category "C" operation.

Unit responsible for disbursements:

IDB Country Office in Chile.

I. BACKGROUND AND RATIONALE

A. Diagnostic assessment of the problem to be addressed

- 1.1 Chile has one of the largest networks of nonprofit organizations in the region—larger in relative numbers than that of countries such as Brazil, Colombia, or Argentina.² As one of the largest nonprofit sectors in Latin America, according to a comparative study, it employed more than 160,000 people and generated US\$1.409 billion, or 1.5% of gross domestic product (GDP) for 2006.³
- 1.2 Since the 1990s, when Chile was classified as a high-income country, the nonprofit sector has undergone a shift away from a funding structure based mainly on international cooperation resources toward one in which 70% comes from government, 20% from international cooperation agencies, and 10% from business.⁴ The most common means of obtaining government funds include calls for bids, funds awarded by competition, and service delivery subsidies. Through these mechanisms, nonprofits of all sizes must compete for the allocation of government resources.
- 1.3 Recognizing the importance of transparency for nonprofits, from 2009 to 2013, the MIF financed the project “Transparency and Accountability in Nonprofit Organizations” in Chile (operation CH-M1036), known as *Transparentemos*, which was executed by Fundación Avina. That project served to raise awareness among nonprofits regarding the need to adopt transparency standards and models for measuring results. The project managed to build consensus around the need for transparency standards, and networks of nonprofits aware of the importance of transparency in the third sector were formed. As a result of the project, 109 nonprofits implemented the project’s active transparency system and 2,000 professionals in the public, private, and nonprofit sectors were introduced to the proposed model. While *Transparentemos* succeeded in positioning the importance of nonprofit transparency, it did not incorporate elements directly related to donor reporting and decision-making.
- 1.4 Chile is one of the countries where conditions are most conducive to giving. First, it has specific legislation (Law 19,885 on Donations for Social Purposes and the “Cubillos Law”) that facilitates the giving process and enables companies and individuals to make donations to projects or to the *Fondo Mixto* [Combined Fund]⁵, taking 50% of the donation amount as a tax credit and deducting the other 50% from their liquid taxable income.⁶ Second, according to the 2013 World Giving Index, published by Charities Aid Foundation, which ranks 135 countries in terms of philanthropy, Chile ranks 35th in the world, and 18th in monetary donations to

² Comparative Nonprofit Sector Project: Chile. Johns Hopkins University Center for Civil Society Studies. Santiago, Chile, Irarrázaval, April 2006.

³ Total employment as a share of the economically active population.

⁴ Communications and Development Institute (ICD), “*Aporte a la generación de propuestas de mecanismos de financiamiento de las ONG en el Cono Sur y Brasil*” [Input for Proposing NGO Financing Mechanisms in the Southern Cone and Brazil], April 2014.

⁵ The *Fondo Mixto* was established by the Law on Donations for Social Purposes to support initiatives presented by civil society organizations that directly benefit people living in poverty and/or with disabilities (<http://sociedadcivil.ministeriodesarrollosocial.gob.cl/que-es-el-fondo-mixto/>).

⁶ Law on Donations for Social Purposes. Summary available at: http://www.sii.cl/contribuyentes/actividades_especiales/resumen_leyes_donaciones.htm.

- social organizations.⁷ According to the *Más por Chile* portal, in 2013 donations totaling US\$16 million were made to the Fondo Mixto by more than 350 donor companies that supported over 500 projects across every region of the country.
- 1.5 Companies and individuals who give to the *Fondo Mixto* may donate to the fund itself (which allocates resources via a competitive process) or make a direct donation to one of the registered initiatives. In order to increase the flow of direct donations, nonprofits need an objective, reliable way to report results or provide comparable, verifiable information to donor organizations. The perception of poor transparency in the nonprofit sector makes decision-making difficult for donors and erodes their confidence in nonprofits, curbing the flow of resources and lessening the potential development impact of donations. This is due mainly to the fact that donors lack sufficient information to be able to optimize their resource allocation. **The project will address the problem of the scarcity of information in the nonprofit market regarding the management and use of funds to facilitate transparency and report on efficiency and effectiveness in the allocation and use of donations.** This lack of information results in a pattern of giving based on size (the larger nonprofits usually receive more funding) or international presence,⁸ while ignoring such criteria as the nonprofit's connection to the donor's strategic objectives. The chief causes of this problem are:
- 1.6 **Limited resources for adopting standards.** A Chile Transparente report from 2012 notes that in an assessment of active transparency, only 12.75% of randomly selected nonprofits met the standards formulated by Chile Transparente. Among the main reasons cited for this low adoption rate is a lack of economic and human resources to dedicate to transparency and results measurement efforts. **Government grants do not cover advisory services in transparency and involve limited reporting requirements.** In a survey recently conducted by Comunidad de Organizaciones Solidarias, 78% of respondents said they had a working or collaborative relationship with the State, which is also the main funding source for 33% of nonprofits that belong to this network.⁹ For the State as a donor, results measurement focuses on the transmittal of monthly financial data. Although Chilean law does not require the adoption of transparency standards, the general assumption is that nonprofits that receive public funds are efficient in terms of their management and transparency or, otherwise, have the necessary financial and technical capacity to achieve this minimum level on their own. Government grants do not include transparency training or advisory assistance, which makes it difficult for small nonprofits to meet the reporting requirements and limits their participation.
- 1.7 **The majority of existing tools do not provide comparable, verifiable information.** The *Transparentemos* project highlighted the fact that a majority of organizations are willing to be transparent but lack the tools to do so cost-effectively. Each nonprofit reports based on the requirements of each specific

⁷ ICD, "Estudio Regional sobre Mecanismos de Financiamiento de las Organizaciones de la Sociedad Civil en América Latina" [Regional Study of Financing Mechanisms for Civil Society Organizations in Latin America], August 2014.

⁸ Comparative Nonprofit Sector Project: Chile. Johns Hopkins University Center for Civil Society Studies. Santiago, Chile, Irarrázaval, April 2006.

⁹ <http://impresa.elmercurio.com/Pages/SearchResults.aspx?ST=fundations&SF=&SD=03/05/2015&ED=03/05/2015&NewsID=313696&IsExternalSite=False>.

donor through a process that provides no value added to the donor, because the data contained in the reports are not comparable and cannot be used as input in decision-making on how to allocate grant funds.

B. Beneficiaries

- 1.8 **Nonprofit organizations.** According to a study by the Chilean Association of Nongovernmental Organizations (ACCIÓN), in January 2014 Chile's Civil Registry listed 160,229 nonprofits (including community and neighborhood organizations, foundations, and subnational organizations).¹⁰ Based on a more detailed Ministry of Justice breakdown (2013) cited in the ACCIÓN study, a total universe of 2,486 nonprofit organizations (includes NGOs and foundations) were identified as main project beneficiaries. Ministry of Justice records showed 962 NGOs concentrated in the Santiago Metropolitan Region (58%), followed by the Valparaíso Region (9.1%) and the Bío Bío Region (8.4%). The database had 1,524 foundations concentrated overwhelmingly (86%) in the Metropolitan Region.
- 1.9 The project will target 115 Chilean nonprofits that are not necessarily known to donors. According to studies by Chile Transparente, these are the nonprofits that face the biggest hurdles to publicizing their mission and establishing management practices that would enable them to build up the level of credibility they need to obtain resources and support, whether from the government or the private sector. A nonprofit must meet the following requirements to be eligible: (a) be a nonprofit organization organized as a foundation or corporation; (b) be registered in Chile; (c) have had at least two years of uninterrupted operations; and (d) submit a memorandum explaining its activities along with a balance sheet, pursuant to Article 557-1 of Law 20,500. The project's nonprofit beneficiaries will be selected on the basis of the following preliminary criteria:
- 1.10 (a) Nonprofits that work with MIF target populations (micro and small enterprises, small farmers, and low-income and vulnerable households); (b) nonprofits willing to share their knowledge and good institutional practices on transparency and results measurement; and (c) at least 75% of nonprofit beneficiaries must work in areas related to private sector development and the generation of economic opportunities (e.g. inclusive finance, entrepreneurship and value chains, access to basic services, and job placement). Prior to initiating the implementation phase, the list of nonprofit beneficiaries should be submitted for the no objection of the Bank/MIF.
- 1.11 **Private donors.** A second group of beneficiaries will be private-sector companies that give to the nonprofit sector. No exact data are available for this group, but donation records kept by the Social Development Ministry list the following as the largest donors from 2008 to 2013: Anglo American (28%), Corpbanca (14%), and Minera Los Pelambres and BBVA (each with 11%). While every donor has its own requirements for measuring results, *Transparentemos* identifies the following as some of the more common results measurement mechanisms: annual reports, balance sheets and expense statements, websites, reports to the board and members, public accounts, beneficiaries' meetings, and quality seals.

¹⁰ Sánchez, A; Ramis, A; Silva, M.C.; Bozo, N. and Fernández, C.; "Diagnóstico, Mapeo y Sistematización de Mecanismos Públicos de Financiamiento hacia las OSC en Chile" [Diagnostic Assessment, Mapping, and Systematization of Public Mechanisms for Funding CSOs in Chile], December 2014.

- 1.12 **Indirect beneficiaries.** Project benefits will accrue indirectly to the nonprofit sector as a whole. Implementation of good practices in transparency and results measurement is the first step toward nonprofit professionalization, in that it helps to make their internal processes more efficient.

C. Contribution to the MIF mandate, Access Framework, and IDB strategy

- 1.13 The proposed project will mean enhanced capabilities and better access to resources for the main private agencies implementing poverty reduction programs (nonprofits) that have MIF target populations as their main beneficiaries (micro and small enterprises, small farmers, and low-income and vulnerable households). These nonprofits are important to the MIF, given that they are, in most cases, the executing agencies for its projects. In addition to playing a complementary role to that of the State, nonprofits can become intermediaries between the State and civil society, providing valuable input for the design and implementation of public policy.
- 1.14 With regard to the corporate donors—as evidenced by the MIF’s experience with joint projects with leading companies—the private sector is seeking to maximize its social investments by targeting them to specific issues and demanding of implementers efficient management that produces outcomes and impacts. The proposed model can provide these donors with the information on nonprofits they need in order to fund more ambitious programs that tie in more closely with their institutional mission.
- 1.15 **Collaboration with the IDB Group.** This effort to promote transparency is consistent with the Chilean government’s efforts to be more transparent, the Transparency Act, and other initiatives, such as fiscal reform. It is also aligned with the Bank’s strategy to support the country in the area of modernization and strengthening of public management.

II. OBJECTIVES AND COMPONENTS

A. Objectives

- 2.1 The project’s expected impact is improved management of nonprofits and increased donations received. The expected outcome is that nonprofits will develop tools and capacity enabling them to provide public and private donors with comparable, verifiable information. Greater availability of information should allow for better allocation of resources, reduced uncertainty, and increased donor confidence in the nonprofit sector.

B. Description of the model/solution/intervention

- 2.2 The project will use the methodology developed by Fundación Lealtad Spain for analyzing transparency and results measurement practices among nonprofits. The methodology consists of analyzing nine parameters (principles of transparency and good practices) determined based on a study of models implemented in other countries (Germany, the Netherlands, the United States, etc.) while also giving consideration to questions asked by donors regarding the use of funds.
- 2.3 The methodology looks at nine principles: (a) operation and regulation of the governing body; (b) clarity and dissemination of the social purpose; (c) planning and monitoring of activities; (d) communication and accurate representation of

- information; (e) transparency in funding; (f) plurality in funding; (g) controls over use of funds; (h) presentation of annual accounts and fulfillment of legal obligations; and (i) promotion of volunteerism.
- 2.4 Each principle is accompanied by a series of indicators that permit a complete diagnostic assessment to be made of a nonprofit's current situation. For instance, under the planning principle, indicators include the existence of a strategic plan and of a formal control and monitoring system. The analysis is voluntary and the end result is a diagnostic assessment that shows clearly and concisely whether or not nonprofits follow the established principles, providing private donors with information that is verifiable and comparable, regardless of the nonprofit's sphere of action.
- 2.5 Under this methodology: (a) information submitted by the nonprofits is verified by Fundación Lealtad, an independent entity; (b) any conflict of interest between the certifying agency and the applicant for certification is eliminated, since the analyses of transparency and results measurement are free of charge; and (c) the nonprofits pledge to make the findings of the analysis public, through a database that can be accessed by nonprofits as well as donors.
- 2.6 **Impact of the Fundación Lealtad model in Spain.** Since 2001, Fundación Lealtad Spain has evaluated more than 270 nonprofits and prepared more than 1,000 reports on their performance. Since 2010, the number of nonprofits requesting Fundación Lealtad to evaluate their performance has increased 42%. Of the nonprofits that have undergone its evaluation methodology, 97% have renewed for additional analysis. In view of the market's recognition of the model, in early 2015, Fundación Lealtad Spain launched its "accredited NGO" seal program, the first such accreditation seal Spanish nonprofits can use to differentiate themselves on their websites, in advertising, and in fund-raising campaigns. In the two weeks following its launch, 60 Spanish nonprofits requested analysis in order to obtain the seal, which will be valid for a period of two years.
- 2.7 **The model.** In 2013, Fundación Lealtad Chile (FLC) ran a pilot with five nonprofits over a six-month period.¹¹ The sample included Chilean nonprofits of varying sizes (from international organizations to small nonprofits) and spheres of action (environmental sustainability, work with older adults, education). It reviewed the transparency and results measurement standards developed by the *Transparentemos* project and Chile Transparente,¹² and the *Memoria y Balance Social* [Social Report and Balance Sheet] (also known as *FECU Social*).¹³

¹¹ Fundación Lealtad Chile, "El Legado de un Año de Aprendizajes – Adaptación y testeo de estándares de transparencia y buenas prácticas de gestión a las organizaciones sin fines de lucro chilenas desde la óptica de un análisis independiente" [Legacy of a year of learning – Adaptation and testing of standards of transparency and good management practices with Chilean nonprofit organizations from the viewpoint of independent analysis].

¹² Chile Transparente began to operate as the Chilean chapter of Transparency International in 2000 and became a legal entity in 2003. Since 2006, it has been monitoring legislation to track the progress of key bills to advance transparency in the country.

¹³ Nonprofits' integrated financial reporting and management model, aimed at standard accountability and prepared by the Comunidad de Organizaciones Solidarias with support from PricewaterhouseCoopers (PwC).

- 2.8 The final proposal was a model adapted from the nine standards of transparency and good management practices, based on 41 indicators (including standards identified in the *Transparentemos* project). In this case, greater emphasis was placed on making more, higher-quality information available to actors (nonprofits and donors) through the **implementation of the diagnostic tool based on the nine principles of transparency and good practices in nonprofits.**
- 2.9 The analysis process begins with introductory training workshops to enable nonprofits and donors to become familiar with the nine standards of transparency. Nonprofits can undergo a preliminary evaluation to identify their degree of compliance with the principles based on a review of their by-laws, financial reports, and planning process. Following this preliminary evaluation, any nonprofit that is ready may choose to undergo FLC's analysis, which results in a final report that is posted as a "virtual record" on the web platform that will be created by the project. Nonprofits may opt not to move on to the analysis stage, but instead prepare an improvement strategy together with FLC.
- 2.10 The proposed transparency analysis provides donors with complete information and an overview of multiple facets of a nonprofit's operations, analyzed by an independent entity (FLC). With this increased level of information, corporate donors will be able to allocate their resources more efficiently to those organizations that have shown better management and results.
- 2.11 The platform to be developed under the project is a meeting point for nonprofits and donors, where users can access verified information and where donors will also post projects and initiatives to support. The platform will be an information tool for nonprofits that will make comparable information on nonprofits available to donors. It will also include tools to make it easier to adopt management and transparency practices.

C. Components

- Component I: Introductory training for nonprofits and donors on the transparency and results measurement good practices model (MIF: US\$38,100; counterpart contribution: US\$82,700)**
- 2.12 The objective of this component is to improve the actors' capacity to recognize the advantages of the transparency and results measurement good practices model, with respect to nonprofits and corporate donors alike.
- 2.13 The following activities will serve to meet this objective: (a) nonprofits' introduction to the proposed model and the importance of transparency and results measurement; (b) training and communications workshops targeting corporate donors; and (c) annual conferences with NGOs, corporate donors, and public-sector representatives that become a benchmark for the sector. FLC partners—including Universidad Católica and Fundación Avina—and networks of nonprofits previously reached by *Transparentemos* (operation CH-M1036) will assist with the awareness efforts.
- 2.14 The expected outcomes of this component are: (a) 235 nonprofits will have taken part in organized training sessions (11 per year) on the transparency and results measurement good practices model; (b) 45 corporate donors will have participated in organized awareness, training, and communications events (3 per year); and

(c) 210 participants (nonprofits, donors, and public-sector representatives) will have attended the sector's annual benchmark conference.

Component II: Implementation of the transparency and results measurement good practices analysis tool (MIF: US\$131,002; counterpart contribution: US\$109,008)

- 2.15 This component's objective is to provide actors in the nonprofit market with what they need to apply the diagnostic tool based on the nine principles of transparency and accountability to the beneficiary nonprofits, and to help these actors use the information gleaned from that tool. The process also includes posting the results and information on the use of donations on the web platform to be created for that purpose.
- 2.16 The activities to be carried out are: (a) development of a web platform that will feature transparency reports, training tools, and a donor project database and will serve as a meeting point for donors and nonprofits; (b) development and digital adaptation of training session content in order to offer a modular online training program to nonprofits; (c) in-person learning workshops to help nonprofits implement the transparency and good practice standards; and (d) application of the transparency analyses.
- 2.17 The expected outcomes for this component are: (a) the online platform will be implemented; (b) 69 organizations (nonprofits and donors) will be actively participating and posting reports accessible to the general public on the online platform; (c) 90 nonprofits will have received training in three annual workshops organized for that purpose; (d) 45 nonprofits will have received online training; and (e) 70 of the nonprofits trained will conduct a self-assessment and develop an improvement plan.

Component III: Knowledge management and communications strategy (MIF: US\$77,000; counterpart contribution: US\$28,000)

- 2.18 The project's knowledge objective is to demonstrate how nonprofits' good practices in transparency and results measurement can provide the information donors need to allocate their resources more efficiently. The theory is that the more quality information is generated, the less uncertainty there will be for donors regarding how their resources are used, and that donations will be used more efficiently and will have a greater impact.
- 2.19 The project's strategic audiences are organizations (multilateral, bilateral, or national) that promote transparency in the sector, public- and private-sector donors, and nonprofits, so they understand the positive impact that adopting transparency and management practices can have on their processes.
- 2.20 In order to meet these audiences' knowledge needs, the following knowledge products will be developed as part of the project:
 - a. A thematic analysis of the status and characteristics of private-sector giving in Chile (flows, major donors, recipients, causes, etc.);
 - b. A case study on nonprofits' application of management and transparency practices, with a view to demonstrating: (i) how adoption of these practices can enhance the impact of nonprofits' activities, and how this translates into a

win-win experience for donors as well as nonprofits and beneficiaries; and (ii) the extent of implementation of these practices and the control mechanisms generated;

- c. Design and implementation of the knowledge and communications strategy for the FLC model; and
- d. A project factsheet with basic project information, challenges, intervention strategy, and results.

D. Project governance and execution mechanism

- 2.21 FLC will set up a project execution unit to assume direct responsibility for implementation (including the timetable of activities, expected outcomes, and deliverables). The unit will consist of a project coordinator and a technical assistant.
- 2.22 **Board of directors.** FLC has a board of directors consisting of renowned experts in the field of auditing and verification as well as in academia. The board should be able to guide overall strategy and decision-making and become more firmly established during project implementation.

E. Sustainability

- 2.23 To ensure the model's sustainability, a critical mass must be reached of nonprofits that undergo the transparency analysis and donors who value it, including the public sector. FLC is undertaking the necessary efforts to raise awareness among corporate donors in Chile of the diagnostic tool's usefulness and importance in order to get them to support and participate in the project. FLC hopes to replicate the model that has enabled Fundación Lealtad Spain to remain independent and sustainable and to position its methodology as the first accreditation seal for Spanish nonprofits.
- 2.24 In its early years, Fundación Lealtad Spain and its methodology were funded by one of its founders, Salvador García-Atance. As time went on, it began to receive funding from large corporate donors (Grupo Santander, PricewaterhouseCoopers, Mutua Madrileña, etc.), whose contributions are used to fund the transparency analyses without there being any direct relationship. These corporate grants are supplemented with government funding. It is important to note that the organizations to be analyzed are not selected by donors; it is the organizations themselves that voluntarily request analysis by Fundación Lealtad.
- 2.25 FLC is in that first phase of funding, with contributions from its founder, and has already adapted the model to the realities of Chile. In the medium term it hopes to replicate a business model similar to that of Fundación Lealtad Spain, based on voluntary contributions from large donors, with 50% of funding coming from the private sector (businesses, corporations, or family groups), and the other 50% from other international donors (e.g. Open Society Foundation, multilateral agencies) and government funds for third sector support and transparency enhancement.

F. Lessons learned from the MIF and other institutions for project design

- 2.26 Some lessons learned from *Transparentemos* justify implementation of this project: (a) nonprofits are willing to report on their activities and processes, but preparing these reports is expensive for organizations with limited resources; (b) both

nonprofits and private donors prefer a transparency system that comes from the sector itself; (c) scandals resulting from a lack of transparency and results measurement have a major reputational impact on the nonprofit sector as a whole, for transparent and nontransparent organizations alike; and (d) for the model to be successful, strategic partners from both the public and the private sector need to be on board from the outset.

G. MIF additionality

2.27 **Nonfinancial additionality.** The MIF brings the technical experience it acquired with *Transparentemos*, which will strengthen the design and implementation of this intervention. Also, the MIF has access to a network of partners—in both the public and private sectors—which will help bring together donors and nonprofits and facilitate dialogue with public actors.

2.28 **Financial additionality.** Given that FLC is in the first phase of funding, based on contributions from its founder, the MIF’s financial support will be vital to attracting the participation and financial support of other partners who may join the project in the future.

H. Project outcome

2.29 The expected outcome of the project is that 115 beneficiary nonprofits will adopt good practices in transparency and results measurement.

2.30 The indicators are: (a) 115 nonprofits adopt transparency and results measurement practices (CRF 230100) and; (b) 15 donors take transparency and results measurement criteria into account when allocating resources to nonprofits (230100).

I. Project impact

2.31 The project’s expected impact is improved nonprofit management and increased donations from the corporate sector, with the ultimate goal of improving quality of life for nonprofits’ beneficiary populations.

2.32 The indicators are: (a) 35 nonprofits see an increase in funding as a result of adopting good practices in transparency and results measurement (330101); and (b) the average increase in private donations to nonprofits that adopt transparency and results measurement practices is 25% (330100).

J. Systemic impact

2.33 The project will produce a systemic impact by strengthening nonprofits, which are key institutions in the implementation of development programs and formulation of public policy. The project will also promote the use of transparency standards as an input to decision-making by private-sector donors, which will have available to them comparable, verifiable information with the guarantee of third-party verification.

2.34 The corresponding indicator will be CRF 450300—Number of public and private entities or institutions changing or applying new practices based on MIF-sponsored projects or knowledge.

III. MONITORING AND EVALUATION STRATEGY

- 3.1 **Baseline.** The initial diagnostic assessment of beneficiary nonprofits performed by the executing agency will provide the baseline. The transparency analyses will yield detailed information that can be categorized according to nonprofits' size, sphere of action, and geographical area of intervention. To analyze changes in donor behavior, in addition to using the information on the web platform, surveys will be administered to measure the increase in quantity and diversity of donations.
- 3.2 **Monitoring.** The executing agency will submit project status reports (PSRs) to the MIF within 30 days after the end of each six-month period and, in special circumstances, on such dates as determined by the MIF, provided it gives at least 60 days advance notice to the executing agency. The PSRs will follow a format previously agreed with the MIF and will outline progress on project execution, attainment of milestones, outcomes, and their contribution to the project objectives, based on the logical framework indicators and other operational planning tools. The PSRs will also describe any problems encountered during project execution and possible solutions. Within 90 days after the end of the execution period, the executing agency will submit a final PSR to the MIF, describing outcomes achieved, the sustainability plan, and lessons learned.
- 3.3 **Evaluation.** The project will include a midterm evaluation to identify any changes among the beneficiaries—nonprofits and donors—as a result of the project. A final evaluation will measure the end results as well as assess the potential sustainability of the intervention proposed in the project.
- 3.4 The evaluation will answer the following questions, among others: (i) What benefits spring from an increase in private-sector giving? (ii) What are the benefits when a larger number of organizations receive resources from private donors? (iii) What effects do increased reporting and transparency levels have on the behavior of donors and nonprofits? (iv) What unexpected effects does an increase in donations have on nonprofits? and (v) How do transparency capacities contribute to nonprofits' general management skills?
- 3.5 **Closing workshop.** At the appropriate time, the executing agency will organize a **closing workshop** with the other entities involved, to jointly evaluate the outcomes achieved, identify additional tasks to ensure the sustainability of project-initiated actions, and identify and disseminate lessons learned and best practices.

IV. COST AND FINANCING

- 4.1 The total project cost is US\$683,730, of which the MIF will contribute US\$364,042 (53%), with a counterpart contribution of US\$319,688 (47%). The execution period will be 36 months, and the disbursement period will be 42 months.

		Counterpart	Total
Project components			
Component I. Introductory training for nonprofits and donors on the transparency and results measurement good practices model	38,100	82,700	120,800
Component II. Implementation of the transparency and results measurement practices analysis tool	131,002	109,008	240,010
Component III. Knowledge management and communications strategy	77,000	28,000	105,000
Execution and supervision components			
Executing agency/administrative	59,940	99,980	159,920
Monitoring system	10,000	0	10,000
Midterm evaluation	10,000	0	10,000
Final evaluation	10,000	0	10,000
Ex post reviews	10,000	0	10,000
Contingencies	8,000	0	8,000
Subtotal	354,042	319,688	673,730
% financing	53%	47%	100%
Institution-strengthening (financial management and/or procurement advisory assistance/training, where applicable)	5,000	0	5,000
Impact evaluation account (5%)	5,000	0	5,000
Agenda account	5,000	0	5,000
Grand total	369,042	319,688	688,730

V. EXECUTING AGENCY

- 5.1 Fundación Lealtad Chile (FLC), as executing agency for this project, will sign the technical cooperation agreement with the Bank. FLC was established in 2013, and is promoted and technically supported by Fundación Lealtad Spain. Its mission is to foster society's confidence in nonprofits by raising levels of transparency in the sector.
- 5.2 **Institutional business model.** Fundación Lealtad conducts activities along two lines of action: promoting transparency and good practice in nonprofits and encouraging businesses and private-sector donors to give to and work with nonprofits.
- 5.3 Fundación Lealtad is a pioneering organization in Spain in the area of nonprofit transparency and good management practice whose objective is to foster society's confidence in nonprofits. It gives individuals and businesses independent, objective, and homogeneous information on nonprofits, to help them decide with whom to work and guide them in monitoring their donations.
- 5.4 Fundación Lealtad is a member of the International Committee on Fundraising Organizations, an international association that brings together NGO evaluation agencies from different countries (it is a board member and its Director-general has served as Vice President since 2012). Since 2009, Fundación Lealtad has been working with Confío–Construyendo Organizaciones Civiles Transparentes A.C., since its launch as part of a technical advisory project to analyze

- transparency and management practices of nonprofits in Mexico beginning in 2010.
- 5.5 FLC will set up a project execution unit and the necessary structure to enable it to effectively and efficiently carry out activities and manage project resources. FLC will also submit progress reports on project implementation. Details on the structure of the execution unit and the requirements for progress reports can be found in Annex 7 in the project technical files.
 - 5.6 **Procurement.** For the procurement of goods and contracting of consulting services, the executing agency will follow the IDB's procurement policies (documents GN-2349-9 and GN-2350-9). Given that the diagnostic of executing agency needs yielded a medium need/risk level, the project team has determined that, based on the provisions of Appendix 4 to the above policies, the executing agency, a private sector entity, will use the private sector methods described in Annex 1 to the Operational Guidelines for Technical Cooperation Operations (document OP-639). In addition, project procurements and contracts will be reviewed semiannually on an ex post basis. The IDB/MIF will use project resources to engage a consultant for training in procurement areas in need of strengthening, as identified in the assessment. Before initiating project contracts and procurement, the executing agency will submit the procurement plan for the project to the MIF for approval. This plan will be updated annually and whenever there is a change in methods and/or the good or service to be procured.
 - 5.7 **Financial management and supervision.** The executing agency will establish and be responsible for maintaining appropriate financial accounts, internal control mechanisms, and record-keeping systems for the project, following IDB/MIF financial management standards and policies. Given that the diagnostic of executing agency needs yielded a medium level of need/risk for the financial management section, supporting documentation for disbursements will be reviewed semiannually on an ex post basis. In addition, with funds from the MIF contribution, the IDB/MIF will hire a consultant to train the executing agency in those areas of financial management that need strengthening, as identified in the diagnostic needs assessment.
 - 5.8 The IDB/MIF will hire independent auditors to conduct ex post reviews of procurement processes and the supporting documentation for disbursements. The scope of ex post reviews will include analysis of the financial reports that the executing agency will prepare annually as part of its financial management. Funds from the MIF contribution will be used to finance this activity, following Bank procedures.
 - 5.9 During project execution, the frequency of ex post reviews of procurement processes and supporting documentation for disbursements and the need for additional financial reports may be modified by the MIF based on the findings of the ex post reviews performed by the external auditors.

VI. RISKS

- 6.1 **Capacity of the executing agency.** Although Fundación Lealtad Spain has a long and prestigious track record, Fundación Lealtad Chile is still a young organization. To mitigate this risk, Fundación Lealtad Spain will continue to support its Chilean counterpart and, if necessary, could allocate resources to strengthen it.
- 6.2 **Sector risks.** Chilean nonprofits with limited capacity may find it difficult to adopt the model. The modular training plan addresses this risk by having the flexibility to adapt to different levels. Another slight risk involves finding private-sector partners to contribute counterpart resources. The MIF's involvement and application of the model is expected to attract resources and motivate other partners to join the project.
- 6.3 **Sustainability risks.** FLC's model relies on voluntary contributions from corporate donors to sustain the transparency analyses. FLC is expected to develop a sustainability strategy as a mitigating measure.

VII. ENVIRONMENTAL AND SOCIAL IMPACT

- 7.1 The project will have no adverse social or environmental impacts. Rather, it will promote transparency and build confidence among the different actors by encouraging more information that is more transparent, to overcome conflicts.

VIII. ATTAINMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 8.1 **Results-based disbursements and fiduciary arrangements.** The executing agency will commit to the standard MIF arrangements relating to results-based disbursements, procurement, and financial management, as specified in Annex 8.

IX. ACCESS TO INFORMATION AND INTELLECTUAL PROPERTY

- 9.1 **Access to information.** The information contained in this document is considered public, in accordance with the Bank's Access to Information Policy.