Subnational Governance and Development:

A New Perspective

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ABSTRACT

This chapter examines how the practice of governance, especially at a subnational level, has been evolving since the 1990s, focusing on the implications for "community governance". An overview of recent thinking on the nature of governance opens up the question of whether "governance" may be exercised through institutions entirely separate from government. Examples are considered from Australia's experience with "community banking", and from trusts and foundations that have emerged from major public sector restructuring. The chapter considers the work of the Global Fund for Community Foundations as an important civil society contribution to subnational governance in developing countries, examining the role of foundations in building capacity and capability in disadvantaged communities through a new approach grounded in an understanding of "community governance". Overall the chapter argues for a broadening in the understanding of governance, from what governments do to encompassing how our communities come together to shape their own futures.

INTRODUCTION

The work of Osborne and Gaebler (1992) represented a high point in the unquestioning acceptance that it was the role of governments to make choices on behalf of their societies and determine how those choices should be realized. In this respect, their view was in the tradition of the inductive approach to the understanding of government, which has informed major areas of work such as "public choice theory", "new public management", and "agent/principal theory". In this chapter analysis of governance draws more extensively on the deductive approach, that is, researchers observing what is happening in the real world and developing theories designed to inform an understanding of their observations.

We start by examining the recent experiences from developed countries. The common theme is greater involvement by communities in decision-making, which would normally have been seen as the prerogative of a governing entity, typically an institution of government at whatever level. Our examination draws on two different but interconnected trends. The first is the growing shift in understanding of governance from what governments do, to a collaborative process bringing together a range of formal and informal institutions in combinations which may be increasingly context-specific and will frequently include "bottom-up" community-based entities and the possibility of communities becoming in some form "self-governing". This trend includes an acceptance that one role for formal institutions of government is enabling the development of the capacity and capability required at a community level to underpin resilient "bottom-up" entities.

The second trend reflects changing understandings of the role and potential of seemingly long-established categories of entity, including trusts, foundations, and public companies. We examine the experience of community banking in Australia as developed by the Bendigo and Adelaide Bank Ltd (as it now is), and consider a number of trusts which have resulted from government-directed restructuring of special-purpose entities which, prior to restructuring, were effectively “ownerless” (examples include regional savings banks in a number of jurisdictions, and special-purpose electricity distribution authorities in New Zealand). A common theme is whether, and to what extent, decisions about the application of income and capital within these entities should follow long-established practice within trusts and foundations on the one hand and companies on the other (including companies engaged in corporate social responsibility), or whether the nature of the entities is such that some form of mandate should also be sought from the communities they serve. If this is the case, what does this imply in terms of the relationship between those entities and communities?

These two trends have both set the context for and contributed to the understandings required to enable the emergence of significant “bottom up” community driven entities able to play a largely self-directed role in the governance of their communities. An ideal illustration is the work of the Global Fund for Community Foundations in supporting the emergence of community-based foundations in developing countries, specifically focusing on building local capacity and capability, including the skills and resources required for communities to be effective partners in delivering development outcomes. It is suggested that this initiative provides an important alternative for disadvantaged communities, especially in societies which lack a strong local government network committed to the wellbeing of its communities.

BACKGROUND – CHANGING UNDERSTANDINGS OF SUBNATIONAL GOVERNANCE

Current thinking about governance has been changing from “what governments do” to the potential for communities to be at least in part “self-governing”. Two decades ago, in their influential book *Reinventing Government*, Osborne and Gaebler described governance in these terms:

Governance is the process by which we collectively solve our problems and meet our society’s needs. Government is the instrument we use. (Osborne & Gaebler, 1992, p. 24)

Osborne and Gaebler’s central thesis was that, as a response to a number of major disruptive trends, a new paradigm was developing: the emergence of entrepreneurial government. Their contention was that “most entrepreneurial governments promote competition between service providers. They empower citizens by pushing control of the bureaucracy, into the community … They redefine their clients as customers and offer them choices ” (Osborne & Gaebler, 1992, pp. 19–20). The authors painted a picture of public-spirited bureaucrats intelligently intervening in markets using a range of different tools to promote the outcomes they believe will best suit their communities.

Implicit in Osborne and Gaebler’s approach was the assumption that institutions of government would act to advance the interests of communities, free from any taint of self-interest. Experience suggests otherwise, with public officials frequently acting to protect their own interest. A more grounded view can be seen in this quotation from a recent publication from the National League of Cities, *Planning for Stronger Local Democracy*: “Public officials and other leaders often bring assumptions about power – specifically that engaging and, to some extent, ‘empowering’ citizens can reduce the power and authority of officials. Leaders will rarely voice these concerns, especially in public settings, but they are nonetheless real”(2011, P6). Osborne and Gaebler’s sense of governance as simply the processes which an institution of government adopts to meet society’s needs was also qualified within the international community by a focus on what constituted good governance, while still seeing governance[1] as the preserve of institutions of government. The characteristics of good governance were commonly described as:

… participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized, the views

of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. (UNESCO, 2005, homepage)

Other work was reshaping the understanding of governance by looking at the relationship between institutions of government and the societies they serve. Kjaer (2004) observed that "[i]nherent in the old governance is a traditional notion of steering by national governments from the top down. The new governance has more to do with how the centre interacts with society and asks whether there is more self-steering in networks" (p. 11). Hambleton (2004) drew what is now a very well known description of the distinction between government and governance, taking the position that modern governance necessarily involves more than just the institutions of government and, on occasion, might not involve institutions of government at all:

Government refers to the formal institutions of the state. Government makes decisions within specific administrative and legal frameworks and uses public resources in a financially accountable way. Most important, government decisions are backed up by the legitimate hierarchical power of the state. Governance, on the other hand, involves government plus the looser processes of influencing and negotiating with a range of public and private sector agencies to achieve desired outcomes. A governance perspective encourages collaboration between the public, private and non-profit sectors to achieve mutual goals. (p. 50)

This distinction was an important contribution to understandings of governance because it freed up researchers and practitioners to recognize governance as a set of processes which need not involve formal institutions of government at all. As such it set the foundation for more open consideration of the part which communities themselves might play in their own governance.

Community Governance

Further insights came from researchers and practitioners looking specifically at the nature of "community governance" – processes for making and implementing decisions which have their primary impact at the level of the community, and which may be based on geography or interest groups. McKinlay, Pillora, Tan, and Von Tunzelmann (2011a) explored the evolution of community governance in Australian states, arguing that community governance should now be seen as:

a collaborative approach to determining a community's preferred futures and developing and implementing the means of realising them. In practice it may or may not involve one or more of the different tiers of government, institutions of civil society and private sector interests. (p. 5)

The associated literature review (McKinlay, Pillora, Tan, & Von Tunzelmann, 2011b) found that a number of researchers were attributing a growing interest in community governance to dissatisfaction with existing structures and practices of government (P 21). They observe that Robin Hambleton (2004) and Geoff Gallop (2006), among others, have explained the increased emphasis on community governance as a response to diminished citizenship created by the new public management approach and the growth of managerialism. The move to reinvigorate notions of civil society, citizenship, and democracy was linked to concerns that existing models of government were inadequate (Denhardt & Robert, 2007; Gaventa, 2006). It also "reflected the influence of leading political scientists such as Robert Putnam (1993), who wrote about social capital and the importance of a 'civic community' if a democracy is to work" (McKinlay, Pillora, Tan and von Tunzelmann 2011b p. 21).

Leistner's doctoral dissertation (2013) detailed Portland, Oregon's experience in facilitating the development of a network of resilient neighborhood associations and non-geographic interest groups. He provided a comprehensive overview of recent literature and research addressing local democracy in the US, noting:

Since the 1980s, academic researchers and local governance reformers have advocated for a shift away from the traditional top-down, expert-driven approach to governance and toward a governance model in which government leaders and staff and community members work more as partners in shaping the community and in local decision-making. (p. 1)

Leistner (2013) identified a number of themes which US researchers see as both underpinning concerns about how institutions of government, especially local government, interact with the societies they serve, and pointing to ways of building more effective relationships. Among the principal themes he records, taken from his literature research are:

- Citizens seem better at governing, and worse at being governed (Leighninger, 2006). Many community members resent what they see as an “adult-child” relationship between government and the community. Local leaders who try to make decisions in this old way often “are faced with angry, informed, articulate citizens”, who are more able to oppose government actions, and “local leaders are becoming tired of confrontation and desperate for resources” (Leighninger, 2006) (p. 16).
- As the “de facto power of the bureaucracy” increased dramatically, “citizens were increasingly confronted by a technical professional role definition of the administrator that precludes the need for their lay input” ... this “professionalism of administration established formal barriers to anything like sustained civic engagement” (Cooper, 2011) (p. 16).
- On the subject of capability, and “how communities can build capacity for collaboration and engagement … Local government leaders may have a strong commitment to citizen engagement and collaboration, but success, ultimately, is dependent upon the capability and willingness of citizens, groups and organisations to be engaged partners in the governance process … as local governments look to promote more citizen engagement and collaboration, they will need to simultaneously work to build the capacity of citizens to do so” (Morse, 2012) (p. 57).

Leistner’s perspective on governance came from a focus on the conditions enabling effective local or participatory democracy. A similar approach can be seen in the work of researchers concerned with sustainability. Roberts (2014) described governance as “about the management of collective matters in the public realm” (p. 200). From his review of practice internationally, he drew a number of general observations and lessons, among them:

- Those directly engaged in the various processes of governance should be supported in performing their duties of governance. The support may take many forms, including providing technical, legal, and other professional help, paying expenses and allowances, and providing training and personal development facilities.
- The creation, support, and management of community capacity, again at all spatial levels – such capacity may, for example, take the form of advice and other support services or, in more active mode, provide the necessary technical and organizational facilities to enable such activities as participatory budgeting.
- The need to involve professionals, politicians, and the wider public in governance arrangements – this also implies the need to work across the public, private and voluntary sectors.
- The desirability of linking governance structures to wider partnership networks or other forms of collaboration – such networks can help individuals and organizations to sustain each other and to respond to changing circumstances and rapidly emerging challenges.

The evidence is strong that governance, in terms of making and implementing choices in the public realm, is now seen as much more than simply being the prerogative of formal institutions of government. For reasons of both legitimacy and effectiveness, good governance is of necessity much more inclusive. Increasingly, governance which falls short contributes to divisiveness and an inability to deliver desired outcomes more than it does to building inclusive communities and enabling solutions to development problems.

Local governments, especially in developed countries, are also becoming increasingly aware of the need to work more collaboratively with their communities and to facilitate the development of a community governance approach. Indeed, a number of peak organizations are increasingly focusing on encouraging greater citizen engagement and strengthening local democracy. For example, The US National League of Cities, in *Planning for Stronger Local Democracy* (2011), observed:

For some time, local officials have been faced with a kind of "Catch-22" dilemma: public trust in government has declined steadily, while the active support and engagement of citizens has become increasingly critical for solving public problems. Today's citizens are simply more vocal, knowledgeable, diverse, skilled and skeptical than the citizens of a generation ago. (p. 7)

In a similar vein, the London-based Local Government Information Unit (2016), publicizing a training seminar on community engagement, stating:

Effective engagement with communities is essential for local authorities. However, reductions in budgets for services often means frontline members face challenges to their role and the authority needs to rely on communities more to solve their own problems. Traditional models of consultation and engagement do not address the current dilemmas enough, yet in this changing and challenging environment, the ability of elected members and officers to involve and empower communities is now more important than ever. (p. x)

The challenge of developing more of an engagement and community governance focus for local government may be compounded in developing countries, in which issues of capacity and capability can be of an order of magnitude more serious than in developed countries. De Visser (2013) considered the developmental role of South African local government which, by virtue of the South African Constitution, is expansive and includes an obligation to "encourage the involvement of communities and community organisations in the matters of local government" (p. 109). He reported major problems such as poor financial management, a lack of skills which severely frustrates the ability of municipalities to implement the developmental mandate, and significant dissatisfaction expressed through means such as ratepayers withholding payment of rates until service delivery improves, and actively engaging in protest. He noted that "recent research indicates that, from 2007 to 2011, there was an average of 11.6 protests per month in South Africa, but the first eight months of 2012 averaged 28.3 protests. Not only is the number of protests on the increase, they are also becoming more violent, with 79.2% of protests turning violent in the first eight months of 2012" (p. 111).

Responses to concerns about the inclusiveness of local government vary worldwide, but converge around the common theme of how to enable greater involvement by the communities that local government serves. Responses may focus on what can now be seen as very traditional measures, such as how to encourage greater electoral turnout. They may actively seek to provide more opportunities for individuals to engage in ways which suit them as, for example, through increased use of social media. They may focus on different approaches to co-governance, ranging from support for participatory budgeting to enabling the growth of resilient residents, and other associations, often with delegated authority to make decisions in relation to their own communities.

NEW AREAS FOR "COMMUNITY GOVERNANCE"

Another phenomenon has, for the most part, been serendipitous rather than specifically focused on questions of governance. It is that community governance practices – as a means of institutions engaging with their public – have extended from being performed only by institutions of government to now include entities which have not traditionally seen their role as one with governance implications for the communities they serve. Examples can be found among trusts and foundations, especially those resulting from some form of public-sector restructuring and, in an Australian initiative, the growth of a unique form of community banking.

Community Banking

Internationally, the term community banking has been most closely associated with locally or regionally based US banks which are typically serve their local communities, both taking deposits from and investing funds locally. The contrast is with banks which operate at a statewide or federal level. US community banks are normally locally owned, and relatively small-scale with total assets almost always less than $1 billion.

In Australia community banking began as what could be seen as an enlightened commercial strategy to grow the business of a relatively small regional bank (the Bendigo Bank Ltd, now the Bendigo and Adelaide Bank Ltd) through establishing what amounted to risk-sharing partnerships with communities (structured as profit-sharing franchises) designed to encourage a greater level of local support than conventional banking models and, in turn, provide an ongoing source of grant funding for the communities involved.

The community banking network of the Bendigo and Adelaide Bank Ltd began at a time when Australia's major banks were rationalizing their banking networks, leading, ultimately, to the closure of over 2000 individual branches. The impact on rural and regional Australia was profound. The loss of banking services to a small community can undermine the viability of remaining businesses, as people then need to go to the nearest town with a bank in order to undertake their banking business, and tend do their other business there at the same time.

The bank's managing director at the time noted that when the community banking initiative was established, it was more than just a business strategy. He was looking for an option which would meet the needs of both the bank and the communities it served. As part of the bank's research, he had studied international examples of alternative banking, including European co-operative banks, and community banks in the US. In his view, none were sufficiently community oriented. As he explained (pers. comm., June 28, 2011), he was concerned with:

the loss of independence at a community level – banking was simply an example of an area in which changes had effectively disenfranchised many communities, shifting decisions critical for their future away from them and not just in geographical terms, but in terms of the incentives and criteria which govern decision-making (shareholder value as opposed to shareholder value plus community value).

Accordingly, the bank designed its own community franchise model. The typical franchise holder would be a company owned within the community it served, with a very broad shareholding base (typically several hundred people), a Board of Directors elected from among the local community, and voting rights based on "one person one vote" rather than "one share one vote". The franchisee would own the local bank assets, including working capital. Banking assets and liabilities would remain those of the Bendigo Bank itself and the bank would be responsible for providing products and services, banking systems, quality assurance, staff training, and marketing.

The franchise agreement provided that branch income would be divided between the Bendigo Bank and the franchisee in accordance with an agreed formula. In turn, the franchisee's share of branch income after branch operating costs would be applied partly to building up reserves, partly to a limited return to shareholders (typically capped in relation to a medium-term deposit rate) and partly to distributions back to the community (income shared between shareholders and communities is typically 20%/ 80%).

Today the community banking network comprises more than 300 community-owned franchise branches (the bank also operates a number of bank-owned branches). Distributions from community bank profits were initially very much in a traditional grantmaking mode, inviting groups in the branch's community to put forward applications for funding. Over time the network as a whole has come to see its most important role as helping shape the communities in which it operates by working with them to identify their most significant priorities and seeking to support those. The bank's shift in approach is shown in Table 1.

Table 1. Change in approach by Bendigo Bank from conventional grantmaking to outcomes focused community development (Source: DeAraugo, pers. comm., 2014)

From	To
Strengthening community	Transforming community
Keeping capital in the community	Growing capital in the community
A local investment option for locals	Investment in local enterprises and innovation
Source of revenue for local projects	Source of revenue, plus leadership and innovation

The transformation in the bank's approach, from conventional grant making to community governance, can be seen as quite deliberate. The community banking network increasingly understood that their branches' power came from their ability to distribute discretionary funds in consultation with the communities they served -effectively, the community bank branches were integral parts of the governance of their communities. The typical branch now recognizes that it is not simply making grants, but it is acting on behalf of its community as the custodian of a scarce and highly valuable resource – discretionary funding to be applied to the community's most significant priorities as determined through consultation between the bank board (who themselves are members of the community) and the wider community.

The community banking network as a whole is supported by a team within the bank itself. Their role includes ongoing professional development for community bank directors, working with branches to develop their capability and long-term vision, and facilitating the effectiveness of their grantmaking. For example, the Bendigo community foundation, an entity approved by the Australian Taxation Office, enables individual community bank branches to make their distributions from pre-tax profits. Indeed, Bendigo's community banking network is a remarkable illustration of how a commercial entity, with a good understanding of the needs of the communities it serves, can combine innovative support for community governance with growing a very successful commercial business.

Trusts and Foundations

Trusts and foundations in various forms have been a feature of civil society for centuries, often established to serve purposes of public benefit specified by the benefactor(s) responsible for their establishment. For much of their history, and within the applicable law of the jurisdiction, how a trust's income and capital should be applied has been the exclusive domain of the trustees. Attitudes have recently been changing towards accepting that trusts should have more regard to the views of the communities in which they operate. In part this can be seen as simply a sensible recognition that a benefactor's purposes will be better served if trustees understand the circumstances of those intended to benefit. In part, though, it also reflects a view that trusts or foundations should have some accountability to the people/communities whose circumstances they are intending to influence, by the way in which they apply the resources they have available to them.

Worldwide, trusts and foundations hold many billions of dollars of assets for philanthropic purposes, and make grants in the order of billions of dollars a year. The most significant grouping of foundations, both by number of total funds under administration and grants made annually, are community foundations. Community foundations will normally be governed by a Board of Trustees appointed from among recognized leaders within the community. Their grantmaking activities will be in accordance with specific directions, if those form part of a gift or bequest to the foundation, or otherwise for general purposes as determined by trustees.

Beginning in 2001 in Toronto, Canada, community foundations have increasingly used an approach known as Vital Signs,[2] which uses community knowledge to measure the vitality of their communities – gathering data and publishing reports on significant social and economic trends to tell the story of how their communities are faring in key quality-of-life areas. Although in many respects the activity of community foundations, including the Vital Signs approach to understanding community needs, does have an appearance of community governance about it, it seems that currently community foundations are using the Vital Signs approach more as a means of gathering information to inform trustee decision-making, rather than as an exercise in community governance as such, working with communities in reaching agreement on priorities and the expected outcomes. It does, though, seem a reasonable expectation that over time at least some community foundations will more consciously acknowledge that they are inherently part of the governance of communities, and shape the way they operate to recognize this.

The same issue of the impact of discretionary grantmaking on the future of communities, and hence on community governance, is now coming to the fore with private trusts and foundations. In 2014 the Kettering Foundation in partnership with Philanthropy for Active Civic Engagement (PACE) released *Philanthropy and the Limits of Accountability* (Rourke, 2014), reporting a facilitated discussion across the US philanthropic sector on the theme of the accountability of foundations – whether, to whom, for what, and how. The report recognized that philanthropic organizations themselves must now consider the nature of their relationship to the communities they serve, largely because of the impact of their trustees' decisions on shaping the future of communities:

It was clear from these roundtable discussions that philanthropic organizations, once accountable only to their boards and donors, must now come to grips with pressures for a more considered relationship with their grantees and the communities they serve – with the need for public accountability as well as institutional accountability. If participants found no one-size-fits-all answers, they did, nevertheless, begin to define and clarify issues of transparency, impact, strategy, and mission. And they recognized that in responding to a changing world it will be useful for philanthropy to engage with these issues as a sector. (p. 14)

A more serendipitous approach to the emergence of a new network of community governance entities can be seen in the growth of trusts and foundations as the "owners" of what were formerly "ownerless" entities in the public domain – worldwide these were primarily regional savings banks (for example, in Italy, Austria, and New Zealand). In New Zealand these entities also included a group of special-purpose local authorities known as electric power boards, which were responsible for retail electricity distribution in much of the country.

The New Zealand Government elected in the 1984 general election was committed to broad-based economic reform, seen as essential for addressing deep-seated imbalances in the New Zealand economy and persistent under-performance that was threatening the ability of the government to support many of the social programs that were an inherent part of the New Zealand "social contract". The reform program included a comprehensive reform of the financial sector – in which the government was deeply involved as owner and or guarantor – and a restructuring of all aspects of the electricity industry, again to replace government-dominated entities with entities structured on more commercial lines. In both instances the prevailing viewpoint was that commercial structures, commercial skills, and commercial accountability were prerequisites for improving performance in industries that were significantly underperforming, at what was believed to be very considerable cost both to taxpayers and the economy at large.

The principal focus was on structural reform – replacing what were seen as out-of-date structures and inappropriate relationships (for example, the government guarantee of deposits with trustee savings banks) with structures that were better placed to compete and deliver efficient services in a much more open economy. Accordingly, the question of the ownership of the restructured entities was seen by government as a second-order issue. It was comparatively easy to respond to representations that ownership should remain with the public who had built up the entities involved as depositors and customers. Regional trustee savings banks were restructured as limited liability companies, and ownership was vested in trusts which would hold their assets (initially ownership of the restructured regional banks but now, with one exception, diversified investment portfolios) and income for the benefit of the community within the franchise area of the previous trustee savings bank.

The retail electricity sector was somewhat more complicated. Ownership was divided between general-purpose local authorities, which had been early investors in electricity distribution, and special-purpose local authorities known as electric power boards, which had been established specifically to undertake retail electricity distribution. All retail electricity distribution businesses were restructured as limited liability companies. Ownership of those companies which inherited businesses previously operated by general purpose local authorities was vested in those local authorities themselves. Ownership of the companies which took over the distribution businesses of electric power boards was determined through a quite complex but locally driven process, which resulted in a mix of giving shares away to customers and vesting shares in trusts (in many instances 100% and in others a lesser amount because of share giveaways). Some were in essence community co-operatives with their income distributed to consumers, one was established as a charitable trust, and one as a trust for economic development.

Initially any sense of direct accountability to the communities they served was addressed solely through the production of annual reports, the main purpose of which in the case of community trusts was to list how income had been distributed in the previous year and, in the case of energy trusts, to comply with general financial reporting requirements and the specific regulatory requirements of the electricity sector.

Two trusts in particular have evolved to demonstrate a very clear recognition of both their accountability to their communities, and the reality that they play a significant role in community governance. Foundation North, the community trust resulting from the restructuring of the country's largest regional savings bank (the Auckland Savings Bank), administers a trust fund of approximately NZ$1 billion. Its website, dealing with its strategic plan, describes its role in these terms:

We are moving towards being a more strategic grantmaker. What this means is that we are committed to ensuring that, while continuing our traditional community support funding, our focus will increasingly be on working in partnership with grantees and other funders to achieve projects of greater scale and impact.

With our funding we are aiming to create significant positive change through supporting innovative projects and practices. To help organisations succeed we will prioritize additional support to assist selected organisations with developing their capacity.

We are keen to develop strategic partnerships with key organisations where there is a shared vision for positive outcomes for our communities. In these volatile times we anticipate that these partnerships will help our funding go further. (Foundation North, 2013, p. 2)

The Trust's focus is quite explicitly community governance, in the sense that the term is used in this chapter. It evolved into that role after some years of following what one of its officers described as "the New Zealand Post distribution policy" – in other words, responding to requests for funding which typically came in through the mail, rather than developing its own distribution priorities.[3]

A second example is provided by the Eastland Community Trust, which was formed to receive ownership of the electricity distribution company created to take over the business of the Poverty Bay Electric Power Board, the electricity retailer serving the east coast of New Zealand's North Island, one of its more remote areas.

Rather than being elected (the case with most of the trusts resulting from electricity reform), the trustees of the Eastland Community Trust are appointed by the Gisborne District Council, the local authority for the area. Once appointed, trustees have full decision-making authority, and cannot be removed by the Council. Each year trustees discuss with the Council what is known as a statement of intent, in which they set out the Trust's intentions for the coming year in terms of investment and other business-related activities, and also the application of the Trust's income and capital. The Council is able to comment and is seen as representing the views of the wider community, but the trustees have the final decision on the terms of the statement of intent.

This Trust has come to see its role as very much one of supporting the development of its communities, working in partnership to identify ways to improve governance and capacity across the community. Its current distribution strategy contains the following statement:

We believe in our community and will support developing and growing community capacity by supporting governance training, mentoring and business support in the not-for-profit sector and business community – that is not funded by the government – and will provide clear opportunities for our region's organisations to perform better.

To collaborate on projects and initiatives brought to us by community organisations that show innovation, vision, have a tangible and long-term return to the community and provide efficiency or diversification of the region's offering. (Eastland Community Trust, 2015)

In summary, the different experiences of trusts and foundations discussed so far in this chapter illustrate a growing awareness that trusts and foundations, engaging more in decision-making than in discretionary funding, are playing a part in the governance of the communities in which they operate, a part which is becoming increasingly significant.

In most jurisdictions, trusts and foundations operate within clear legal frameworks, often subject to governmental supervision (for example, through state agencies responsible for overviewing the charitable/philanthropic sector). They have well-understood discretions in respect to the application of funding and their other activities, which help underpin their relative independence in decision-making.

The overwhelming majority of trusts and foundations holding income and assets for purposes of public benefit have been established by a single philanthropic donor or closely related group of donors, and operate within both a legal framework and a culture which treats the decision-making and accountability of trusts and foundations as a matter of private rather than public law. This is the case even with very large foundations such as the Bill and Melinda Gates Foundation, or with seemingly more public foundations such as community foundations, since they also have been formed and held accountable within the same legal framework.

This chapter so far has illustrated the beginnings of a shift towards more public accountability and, perhaps more importantly, an awareness on the part of some trusts that the nature of their influence on the communities in which they distribute their funding is such that they are, in practice, an integral part of the governance of those communities. Generally, this understanding is still largely inchoate and inhibited by other understandings, such as the legal framework regulating the way in which trustees may take decisions.

This shift can also in a way be seen as something of a continuum in the evolution of trusts and foundations themselves. Initially trusts and foundations were established primarily either as acts of private beneficence or to support the work of (usually) institutions of religion. Their accountability was quite reasonably back to an initial benefactor, or the religious purpose they had been established to serve. The rise of community foundations represented a shift from entities whose purpose had been established by a specific benefactor or benefactors, to entities acting as a vehicle for multiple benefactors within a much broader purpose of benefiting the community in accordance with the judgement of selected community leaders – namely, the trustees of the community foundation, who were typically appointed because of their standing in the community.

The emergence of trusts and foundations resulting from some form of public sector restructuring (such as the trusts resulting from the restructuring of regional savings banks, in countries such as New Zealand, Italy, Austria, and New Zealand's retail electricity distribution authorities) represents a further shift. These trusts have neither specific benefactor/s nor often any sense of mandate from the communities which they serve; instead, they draw their authority from the terms of the restructuring which brought them into existence (this is more the case with New Zealand trusts than with those in countries such as Italy and Austria, where a much longer history of the predecessor regional savings banks as community benefactors arguably does provide some form of mandate). For trusts with no direct mandate from a benefactor or a pre-establishment history, a community governance approach to determining how they apply their income and capital arguably fills an essential gap.

In a further development in the emergence of a community governance approach as part of the means through which the role and decision-making of trusts is determined, one group of trusts and foundations, those associated with the Global Fund for Community Foundations (GFCF), is quite explicitly functioning in a community governance manner with the specific objective of enhancing outcomes for disadvantaged communities (which may be communities of place or communities of interest). The remainder of this chapter explores the experience of the GFCF, the foundations with which it works and the broader field in which they operate, in order to highlight their potential to contribute to the better achievement of development goals.

Hybrid Forms of Governance Based on Community Philanthropy

The discussion now turns to the role of a new set of hybrid institutions – specifically community foundations and other community philanthropy organizations – in developing and emerging markets. Such organizations harness the power of local people and therefore contribute to the demand side of governance. In the past, donors such as the World Bank emphasized the supply side by stressing the central importance of a strong public sector and effective systems, such as an independent judiciary, strong civil service, and elected parliaments. These institutions are important for governments to support the growth of representative democracy in achieving sustainable development. However, they are only part of the picture and more recently there has been a growing emphasis on how democracy can be deepened by engaging citizens – beyond the structures of the state – on the demand side of governance as well (World Bank, 2007). The evidence suggests that citizens want to be part of developing their communities. In a study of what citizens wanted from their societies in 47 Commonwealth countries, Knight, Chigudu, and Tandon (2002) found that a central feature was playing an active part in local governance arrangements.

Citizen engagement fits with Osborne and Gaebler's (1992) view that community members can add special knowledge, motivations, and experience that professionals and bureaucrats cannot possess. They quoted John McKnight of Northwestern University, who suggested that, since communities are closer to their problems than government professionals, they are better able to understand and address them. Communities are also more committed, flexible, and creative, and can often accomplish tasks more cheaply than service professionals. Rather than undermining local efforts by delivering services to people, public agencies can nurture community control by encouraging communities to take control of services; by providing seed money, training, and technical assistance; and by removing bureaucratic hurdles. However, government is still ultimately responsible for ensuring services reach those who need them, that structures are in place to identify corruption, and that decentralized programs are working properly.

Processes aimed at ensuring communities' involvement in local decision-making and allocation of resources have been a regular feature of many development programs, using systems such as participatory rural appraisal. However, less attention has been paid to the kinds of local institutions that can embed such principles and approaches in their work, act as stewards of knowledge and resources for the long term, and serve as a counterweight or complement to local level government institutions.

Community foundations and other types of community philanthropic organizations are institutions of community democracy or "social solidarity". A joint research project undertaken by the Coady International Institute and the GFCF (Hodgson, Knight, & Mathie, 2012) observed that:

All of these organizations play important interstitial roles in society, harness the power of small grants and investments, help communities build on the assets they can mobilize themselves, build constituencies among people who are oppressed and excluded, and negotiate the territory between such marginalized groups and governments. (p. 4)

Another way to consider this emerging field is in the context of what Berger and Neuhaus (1976) described as "mediating institutions", essential to a democratic society because they are "the value-generating and value-maintaining agencies in society" (p. 4) that are highly connected to and draw from people and their communities in ways that are beyond the scope of the heavy and impersonal structures of the state. This argument draws from an emerging body of data collected through the development and knowledge-building programs of the GFCF and its partners. As noted previously, community foundations have long been an established part of the philanthropic landscape in the US and Canada. The first community foundation was established in 1914 in Cleveland, Ohio, by Frederick Goff (Cleveland Foundation, 2014). Goff was a forward-thinking lawyer and banker, who first had the idea of pooling charitable assets to create an efficient and permanent vehicle for addressing local problems. The Cleveland Foundation provided an important and innovative blueprint that was taken up across the US and Canada. Data available for the 700 of these organizations based in the S indicated that cumulative giving in 2011 totaled roughly US$4.2 billion (Foundation Center, 2012). The concept also found fertile ground further afield in the UK and Germany, with the first community foundations established in 1975 and 1996, respectively.

Bernholz, Fulton, and Kasper (2005, p. 2) identified four distinct periods in the evolution of the community foundation field in the US: institutionalization (1914–1930s); a dormant period under the shadow of the Great Depression and Second World War; an era that heralded "the democratization of community philanthropy" (1950–1990); and, finally, "the age of commercial charity" (1991–2005), which saw community foundations fighting for part of the commercial giving market which had been disrupted by the introduction of more cost-effective models such as fidelity funds.

Over the last 10 years, community foundations in North America have entered a new period of introspection, due to "inescapable demographic, technological, economic, environmental, and social trends reshaping our communities and altering the landscape of philanthropy" (Monitor Institute, 2014, p. x). They have reflected on their relative strengths as facilitators of community development and stewards of philanthropic resources, and on the tensions between being "mission-driven" and "bottom-line-led" (p. x). Recent areas of practice such as the Rural Development Philanthropy Learning Network (Aspen Institute, 2005) in the US and Vital Signs in Canada (Community Foundations of Canada, 2015) indicate a new direction in thinking about how community foundations can play to their strengths as bridging organizations, with an ear to the ground, a finger on the pulse of local giving patterns and, perhaps most importantly for the purposes of this chapter, an eye to the larger arena of policy. In the US, community foundations have in the past tended to shy away from engaging directly with government, but this is also now being challenged. At a Council on Foundations community foundations conference to mark the centennial of the Cleveland Foundation in October 2014, Ambassador James Joseph made the call to:

[s]hed our inherited fear of public life, especially the delusion that the community foundation is so constrained in what it can say or do about public policy that we must restrict our presence to promoting and facilitating charity rather than engaging in philanthropy that informs or enriches public policy. (Council on Foundations, 2014)

Outside North America and Western Europe, the last two decades have seen the emergence of community foundations as a highly adaptive concept, particularly in countries where institutional philanthropy itself is a recent construct, where governance is weak, governments lack capacity – or the political will – to serve their citizens effectively, and where public trust is generally low. Community philanthropy organizations that are multi-stakeholder in their make-up seek to create an infrastructure for local giving and asset development, and strengthen local communities' abilities to have a stake in their own development. They also offer important new platforms for civic engagement, participation, and, potentially, local governance. The unique contribution of these organizations, in being led by local people, is that they build governance from the inside of communities and therefore generate trust in situations where people lack trust in formal governance structures imposed from the outside.

In 2006, the GFCF was established in response to the growth of this global field, with initial funding from the World Bank and two private US foundations: the Charles Stewart Mott Foundation and the Ford Foundation. For the Ford and Mott foundations, investment in the GFCF was consistent with their broader and long-term support for foundation development as an essential part of the local eco-system for a healthy civil society. For the World Bank, however, support for the GFCF – and its emphasis on local (private) philanthropy – represented something of a departure from the norm. From 2003 to 2008, and also with support from the Ford and Mott foundations, the World Bank had implemented an internal process to explore the viability of community foundations as a potential strategy for enhancing the long-term sustainability and ownership of its often highly successful Community Driven Development (CDD) programs. Unlike the Ford and Mott foundations, which focused more on strengthening civil society, non-governmental sectors and the particular role of local philanthropy (i.e., "private resources for public good"), CDD provided the World Bank with a mechanism for strengthening local institutions, increasing ownership and community-based support for development with particular regard to the transparent and responsible allocation and deployment of public resources, particularly in the context of decentralization processes:

When operating well, CDD programs can offer an effective local development platform that can help improve the targeting, cost efficiency, service quality, and overall accountability of sector programs. It can help embed principles of transparency, accountability and participation into the entire subnational governance system ... (World Bank, 2015)

The GFCF has provided small grants and technical support to over 160 community philanthropy organizations, managed by a variety of local stakeholders in 54 countries around the world. Through data collected from its in-depth grants process, the GFCF has sought to strengthen the evidence base for the community philanthropy field in low- and middle-income countries of Africa, Asia, Latin

America, and Central and Eastern Europe, to understand the size and dimensions of the field, the factors driving its growth, and the specific niche these organizations seek to occupy. Until recently, the field has been neither well understood nor well documented: its small size and scattered distribution have meant that it has yet to achieve the status of "constituency" or "sector" of any kind in individual countries and regions. At the same time, the kind of infrastructure for philanthropy that exists in more developed contexts (where data are collected, collated and published regularly) is also still itself only emerging. A further reason for the low profile of the field is because community philanthropy – and the particular emphasis on foundation development as a good in itself – has not fitted easily within much of the mainstream development discourse, with its emphasis on project- and sector-based approaches. And yet, despite these constraints, the idea of community philanthropy seems to have found local resonance and relevance in a diverse range of countries, as an important piece of the infrastructure for people-led development.

Although the specific circumstances in which individual community foundations have emerged may vary, a number of common contextual factors have both fueled the development of the field and determined the extent to which such efforts have been successful.

The most significant factor is the rise of the idea of civil society. In a famous article, Lester Salamon (1994) described what he called the "associational revolution", in which the rise of the nonprofit sector "may prove to be as significant to the latter twentieth century as the rise of the nation-state was to the latter nineteenth" (p. 1). Such developments were driven by the seismic shifts in social, political, and economic landscapes heralded by the fall of the Berlin Wall and the end of the Cold War in the late 1980s and early 1990s. This changed the face of Eastern Europe and the former Soviet Union, and led to a complete overhaul of the role of government, marking the emergence of private and civil society sectors as new and important actors.

In this new environment, a number of international donors and local civil society leaders in different country contexts recognized the potential opportunity community foundations represented in helping to model and negotiate new relationships between different actors at a local community level. With its multi-stakeholder governance structure and multi-donor funding base, the community foundation concept provided a new kind of open platform for harnessing contributions from the growing business sector and linking them to emerging local civil society groups and, by doing so, fostering a new spirit of voluntarism and civic engagement. With their emphasis on building local philanthropy and local giving, community foundations had a particular importance: the development aid provided by bilateral and multilateral donors was always going to be short-term in supporting the transition to multi-party democracy, and so it was important to think ahead and to start to grow local funding sources. The first community foundation in Eastern Europe, the Healthy City Foundation in Banská Bystrica, Slovakia, was established in 1994, and in Russia the Togliatti Community Foundation was registered in 1998. In both cases, consultations and engagement with local government as a key stakeholder played an important role, as a way of both modelling new kinds of inter-sectoral co-operation and also avoiding any sense of competing interests.

In South Africa, a similar effort was made to introduce community foundations as a mechanism for facilitating a new kind of community engagement after the end of apartheid and the country's first democratic elections in 1994. A pilot project of 10 community foundation start-ups did not yield great success, however. There was perhaps too much emphasis on the "mechanics" of foundation-building and not enough investment in getting local buy-in for the idea in a country still harboring deep wounds and distrust at a time of massive transition (Hodgson & Knight, 2012).

Another important driver of community foundation development, and something that is often undervalued in the technical, expert-driven approaches of "big development", has been the role of individuals, disillusioned by the top-down, short-term nature of international development aid and inspired to create alternative, locally formulated organizations with roots in the community. Community philanthropy organizations in Kenya, Palestine, and Nepal, for example, were all established as a riposte to the failures of development aid, whose structures and accountability to external stakeholders (i.e., tax-paying electorates/publics in the donor country) often ended up marginalizing and disempowering local communities, rendering them subjects of, rather than actors in, their own development. The founders of the Kenya Community Development Foundation, the Dalia Association, and Tewa, the Nepal Women's Fund, each sought to model a new kind of institution that put local communities front and center, emphasized the existence of and the importance of local resources, and one that could take a long-term view, respond to changing community needs, and devolve power to the community. In their programs and structures, all these institutions offer different examples of emerging practice that supports these aspirations, such as the creation of community funds with local community members as donors (Kenya Community Development Foundation, 2015), participatory grant-making processes (Global Fund for Community Foundations, 2015), and encouraging grant recipients to contribute back to the organization as a way of flattening power and creating a culture of co-investment (Tewa, 2011).

In considering alternative types of institutions that emphasize people and communities, the local cultures of giving and solidarity – and the systems of trust that underpin them – also form an important part of the picture. Research initiatives such as *The Poor Philanthropist* (Wilkinson-Maposa, Fowler, Oliver-Evans, & Mulenga, 2006) and *Philanthropy in Egypt* (El Daly, 2011) involved extensive surveys and the analysis of cultures and systems of solidarity and giving. Both publications were instrumental in influencing and shaping community philanthropy institutions and practices in South Africa and Egypt, respectively, emphasizing that giving, solidarity, and locally formulated responses were an intrinsic part of how communities have always functioned and need to lie at the heart of local development.

Two other important clusters of the emerging community philanthropy field sit at very different ends of a spectrum, one driven by community activism and the other by the existence of assets in a community. The first includes very local organizations (in a neighborhood or several neighborhoods, but smaller than a town or city) in places experiencing rapid changes. These might include changing demographics, increased inequality, or the effects of rapid economic development, from which the pressures and tensions can threaten social cohesion and alienate people in the same community from each other. These organizations, such as the Kilimani Project Foundation in Kenya and the Ferencvaros Community Foundation in Hungary, seek to engage different members of their community – who share the same physical spaces but whose paths might not normally cross – in conversation and action with regard to their community, including mobilizing local assets for the common good.

The second includes new models of community-owned and community-controlled foundations which have emerged in the context of the existence of a public or community asset – such as minerals, forests, property, or land – and where participation extends to community participation in the governance and decision-making processes. In Ghana, the Newmont Ahafo Development Foundation is one example of an effort by a mining company to create an endowed, community-owned development foundation with resources derived from mining in the region and deployed through various local participatory decision-making processes.

As an emerging field, these new forms of community philanthropy do not follow a single narrative in terms of their origins. While some were inspired directly by the US "Cleveland" model, which they adapted to the local context, others have emerged as a response to local circumstances, including frustrations around the failures of the international aid system, as well as efforts to move the governance and ownership of benefits from public assets closer to communities.

Given their diversity, then, what are the points of convergence? In terms of pure function, all of the organizations share several key characteristics. One is that they tend to be grantmakers. Not only does this activity distinguish them from other kinds of civil society organizations that implement projects themselves; it also makes them somewhat unusual in their local context: grantmaking is still largely an activity associated with larger external donors. A second characteristic is the deliberate focus on local assets and local philanthropy as a goal in itself and for a range of issues. A third, less deliberate, feature of the global field is that these organizations (unlike their northern cousins) tend to be somewhat small: out of 49 organizations surveyed by Hodgson and Knight (2010), 75% had an annual income of US$155,000 or less.

In an attempt to look beyond the demographic dimensions of the field, the GFCF introduced a set of indicators, framed around the bonding, bridging, and linking aspects of social capital, to identify what other factors drive the work and interests of these organizations. In their report *More than the Poor Cousin*, Hodgson and Knight (2010) drew on data from 49 grant applications to the GFCF and showed clear differences in some areas – such as the extent to which individual organizations focused on specific social justice issues such as race and gender, as against a broader set of issues affecting a specific geographic area, or the extent to which they saw their work in the context of influencing purely local behaviors, or local and global behaviors together. There was convergence, however, around three indicators: "building local assets", "strengthening local groups", and "building trust in the community". It is these three characteristics – assets, capacities, and trust – that form the pillars of the conceptual framework for the work of both the GFCF and the Global Alliance for Community Philanthropy, a five-year multi-donor learning platform (comprising private and public donors) that seeks to grow an understanding of the nature of community philanthropy, how it can contribute to sustainable, locally owned development, and how donors can support it (Global Fund for Community Foundations, 2013).

Donor support for community philanthropy has largely come from US private philanthropic foundations, rather than bilateral or multilateral donors. This – in addition to the influence of the Cleveland model – has served to frame the community philanthropy discourse as part of civil society or "non-state" spaces, reflecting the gap between government and philanthropy in the US, rather than as a particular tool for local governance *per se*. However, as the field has developed in a range of different countries (particularly where democracies are still young or where the role of the state is still strong and where relationships with non-state sectors are still being negotiated), it is evident that community philanthropy offers a particular and important space in which citizens can engage and where participatory and decision-making behaviors can be encouraged and modelled. If community philanthropy organizations are successful in involving citizens as co-investors in local development processes, then they can also help strengthen a new energy of citizens to engage, as part of a "deepening of democracy" (Knight et al., 2002) that can be more direct and more participatory. Looking beyond the functional aspects of grantmaking and local fundraising, Hodgson and Knight (2010) observed that, on deeper examination, community foundation leaders:

saw their work as being about encouraging people to become more active in their own development, driven by a sense that "people can do things for themselves". They also spoke of how they sought to overcome high levels of apathy and civic disengagement in their communities by "getting people to take charge of their lives", as one put it. (p.8)

This idea of promoting fundamental shifts in mind-sets has been further explored in case studies from Egypt and Kenya. Gilbert and al Jebaali (2012), writing about the experiences of the Community Foundation for South Sinai, described the Bedouin community's "chronic disengagement from the state" where:

social capital, of which civic participation may be seen as a key element, is stronger outside the state-sanctioned context of formal NGOs than within it (p.9)

Their study described efforts to develop a community foundation in the very complex environment of Egypt's Southern Sinai, where "most Bedu have learned to believe that nothing they do as individuals can make much difference; and [where] many communities have no access to information on which to base decision-making" (p. x) and in the window of hope offered by the 2011 Egyptian Revolution, which saw community members – organized for the very first time – stand for public office. As they observed:

We wanted to enhance people's agency, and with it their ability to make choices about how they live. Multiply excluded and with no access to social media or even basic communications, young Bedu were not part of the collective national consciousness … However, once offered the chance to express themselves safely, they created their own place in South Sinai's contested space, grounded in their identity as Bedu and powered by their own determination to bring about change. The meetings *[organized by the community foundation] catalyzed a collective response that was waiting to happen. (p. x)*

Another example of bottom-up mobilization facilitated by a community foundation can be found in the study of a long-term relationship between a remote rural community in Kenya and the Kenya Community Development Foundation, the country's only public foundation (Mahomed & Peters, 2011). The study describes a 14-year relationship based on small grant support, capacity development, and a shared vision of citizen empowerment which – through strategies to grow assets, strengthen local agency, and build trust within and beyond the community – entirely transformed the community of Makutano:

Moreover, central to almost every activity that [the Makutano Community Development Association] has engaged in, is its commitment to harnessing the contributions of locally owned assets – labour, time, money, and local physical resources such as land or raw materials. Such contributions, made by community members living in very difficult economic conditions and with little to spare, challenge conventional notions of passive communities awaiting aid or incapable of controlling their own development agendas. Today, even the government has come to recognize and value the example provided by MCDA. In fact, local members of parliament and others have begun organizing study tours and exchange visits for its new CBO partners, so that they too may learn from MCDA's successes. (p. 6)

However, the last 20 years of bottom-up and donor-supported efforts to support the development of a set of local level philanthropic institutions in the Global South that can model civic participation, a culture of co-investment, and a spirit of democracy have not been plain sailing. As Pennenkamp and Focke (2013) observed, governments are not alone in their tendency to remain remote and capture power from citizens:

Philanthropy – with its hierarchy of powerful boards and donors at the pinnacle supported by experts, and professional staff members chosen for content, administrative, or fundraising expertise – is inherently inhospitable to community democracy. (p. 6)

CONCLUSION

This chapter has looked first at changing understandings of governance from "what governments do" to a more collaborative approach which may bring together one or more of the institutions of government, civil society, the private sector ,and the community, to community governance as a term for a process through which communities determine and seek to realize their preferred futures.

It has also considered the way in which a number of institutions of civil society, primarily trusts and foundations, and even private sector institutions such as Australia's Bendigo Bank, have begun to understand the extent to which their activities play an integral part in the governance of communities. This has raised the question of whether those institutions should have a mandate from the communities they seek to influence, implicitly recognizing that the right to determine who should be entitled to intervene to shape the governance of communities ultimately belongs to those communities themselves. This remains an ongoing debate, but a clear direction does appear to be emerging in favor of the mandate position.

Perhaps the clearest illustration of the extent to which institutions of civil society can play a pivotal role in enabling and facilitating community governance is seen through the work of the Global Fund for Community Foundations (GFCF), with its focus on supporting the development of community-based foundations which have an explicit role in enabling the better governance of their communities including being able to act as credible and accountable local partners in development.

Strong, credible, locally owned and supported community philanthropy organizations do not emerge without care and attention – particularly to the influences of power and elites. Among some of the key learnings from the GFCF's own efforts to support the development of the field are the following:

- The importance of avoiding a simple "blueprint" approach. While exposure to different kinds of models and practice can be enormously beneficial in shaping thinking and in demonstrating some of the different ways in which community philanthropy organizations are building assets, capacities, and trust within communities, an appreciation and understanding of the specific local context – cultural, political, socio-economic, and historical – is crucial if such organizations are really to "take root".

- If a community philanthropy organization is to model a new kind of organizational behavior that marks a departure from the negative effects of "NGO-ization" prevalent in many aid-dependent contexts, strong and creative local leadership is essential; external technical support can be helpful but is no substitute for local ownership of the idea.
- Because the field is still young, small, and still somewhat fragile, with individual organizations often isolated from each other, networks and field-building efforts become essential, as do supports to grow local thought leadership that emerges from practice rather than theory.
- Reflection and self-evaluation within individual organizations and across the field are essential in maintaining the spirit of participation and inclusion and warding against concentrations of power.
- Finally, there is an important role for external donors in supporting the emergence of this significant but still somewhat invisible field. Donors need to tread carefully, however, and ward against undermining local agency and local assets with well-intentioned but distorting interventions.

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ENDNOTES

[1] In the public arena, as opposed to governance within private sector entities where research was also moving ahead quickly to refine understandings of what constituted good corporate governance.

[2] See www.vitalsignscanada.ca for more detail of the vital signs approach.

[3] There is a slight apparent anomaly with this trust in that its name includes the word “community”, typically associated with trusts which resulted from the restructuring of regional savings banks, although this trust resulted from electricity distribution restructuring.