

DATE: March 5, 2018

TO: CCWG-AP

FROM: Sarah Berg, Ponsonby Partners

ICANN Contracted Advisor on Strategic Development and Philanthropic Programs

RE: Best Practices for Charitable Entities and Programs

CONFLICTS OF INTEREST:

Do you, or an entity that you represent, hope to assist ICANN/serve as a grant-making organization in the future in relation to the auction proceeds? No, not to my knowledge. I'd like to disclose that I am an employee of the Pew Charitable Trusts. At Pew, I do not have current interaction with ICANN.

Are you, or an entity that you represent, interested in applying for a portion of the auction proceeds. No, not to my knowledge.

Are you, or an entity that you represent, an advisor to other potential applicants interested in applying for some of the auction proceeds? If no, do you anticipate that you/the entity you represent, may serve in this advisory capacity in the future? No, not to my knowledge.

Are you, or an entity that you represent, interested in serving as a consultant to ICANN in designing/implementing the selected structures? Yes. Currently, ICANN has retained me on a contractual, advisory basis, to be an educational resource regarding charitable entities.

Are you, or an entity that you represent, a part of ICANN's community, and if so, will you be representing that position as part of your conversation with the auction proceeds group? I am advising in my contracted position.

Dear CCWG – Auction Proceeds,

Thank you for your request to better understand charitable giving vehicles. ICANN has an opportunity to shape and create something with lasting impact and I appreciate your desire to learn from others. Although every scenario is unique, there are common themes and best practices to consider when choosing the best mechanism to achieve your goals. At this juncture, I'd only like to address your general questions with a few remarks and follow up questions.

When considering a method of distributing money, there are a few core elements to define: your resources, objectives, levels of control, competence, and cost.

Resources

Non-Fundraising Charitable organizations usually have one original investment and are often structured to sunset. This is very common and the restrictions can be outlined in the

founding/legal documents. Thus, it is important to consider what level of funds you are managing. “Temporary” is a relative term. For example, if the fund were to sunset by 2030, a robust structure and strategy for fund dissemination would still need to be in place.

With funds of this size, assets would need to be prudently invested per the organization’s investment policies over the course of the granting period, with a determined total of annual grantee support. For example, if ICANN had a fund of \$200M and wanted to sunset the granting period in 12 years (2030) with a relative investment rate of 4%, ICANN would have an annual budget of \$21.3M.

Defining Objectives:

ICANN can structure the fund dissemination in many ways, and the four options selected are sound suggestions. Clearly define the mission and vision of the governing body. From that mission, I would ask for a greater understanding of objectives with the following questions:

1. When considering the mission, goals, objectives, and depth and scope of work, what is considered success?
2. What role does ICANN want to play within the charitable internet landscape?
3. What are the needs ICANN wants to meet? What change do you want to make? What will you NOT fund?
4. What would make the CCWG team happy with your time and work investment at the end of this process?
5. What impact do you want to make? How do you want to measure it?

Answering these questions will hone your goals and objectives and will highlight what is important to you as an organization. It will also give insight into the level of control you want to have over fund disbursement.

Control

When considering your resources, goals and objectives, it is critical to define ICANN’s level of control over the distribution of funds. You may want to view this with a two-pronged approach:

1. Who has the fiduciary responsibility to govern and oversee the distribution?
2. How is the multi-stakeholder culture of ICANN represented in the disbursement?

What are the checks and balances between these two components of control? Are there other elements of control that need to be considered?

Competence

A solid leader drives impact and ensures financial stability, integrity, and a commitment to mission. Leadership is also required to oversee the management of funds, grant proposals, project implementation and evaluation, while adhering to fiscal responsibility and clear communication. Depending on the types of grants and structure of the funds, its important ICANN engages experts in the field to enable efficiencies of scale and mitigate reputational risk.

Grant experts manage the application process and implementation, monitoring and evaluation cycle. Advisory councils could assist in scoring the grants if the CCWG was looking to participate in the future.

What type of grants do you anticipate disbursing?

Investment projects: Leadership identifies a critical need within their strategic priorities and develops a core team of researchers, academics or partners in the field to develop a project with a specific timeline and projected deliverables for impact. This may include partnership with other organizations, but ICANN would lead the implementation of the investment. ** This is typically used when funds are deployed for new endeavors (i.e. an organization identifies an unmet need and other partners or organizations are not meeting it.)

Grants: Although a similar due diligence and Request for Proposal (RFP) process to investment projects, the entity identifies other organizations that are mission aligned and making an impact. Investments are made through those partners with a strong evaluation and measurement approach.

There are other ways you can partner with aligned organizations. Whether you work from a foundation or separate ICANN department, you can consider alternative methods such as:

1. Co-Fund a joint partnership with other organizations for leveraged change. One entity could provide the technical tools and the other provide the corresponding resources.
2. Partner with a Donor Advised Fund that can manage the grant management for smaller grants or specific project. ICANN would no longer have direct control, only in an advisory role. This partnership is often used in family foundations.
3. Seed invest in new business as a public/private/charitable partnership

These are just a few examples to explore, but take in to account the potential investment to achieve your goals.

Costs

Your costs will be defined by your mission, goals and objectives, and levels of control and competence. There are two kinds of costs related to charitable organizations. Direct and Indirect.

Direct: Direct costs are related to the activities for specific charitable beneficiaries. They provide resources for the lifecycle of the granting program: grants management personnel, expert due diligence, implementation, monitoring and reporting structures, supplies, travel and sight visits.

Indirect: Indirect costs include facilities and administration, executive oversight, internal meetings and travel, accounting, audit contracts, management expenses, legal and insurance costs, IT/utilities/maintenance.

A brief note on fiduciary Oversight: Book keepers/Certified Public Accountants (CPA) manage the expenses and grants and a separate Audit firm confirms the transactions each year. Legal representation must be retained to ensure best practices are used and to mitigate any risk.

Insurance coverage for a non-profit is also required to mitigate risk. Governance can also be monitored through the board finance and/or conflicts of interest committees.

Administrative expenses: Indirect costs of administrative expenses include: staff compensation, staff size, types of grants made, geographic focus, fund longevity and individual reporting requirements.

Depending on the unique needs of an organization, most organization's Indirect or operational costs are between 5-10% of the annual operating budget, but not always. Again, some are more or less based on the needs, mission and impact of the organization.

Conclusion

In my experience, the hardest and most valuable work is honing your goals and objectives. Take thoughtful time defining and refining the type of impact you want to make. The clearer goals, the greater the impact. If you do not do this work upfront, funds will not be used efficiently or effectively. Once your concept and vision are outlined, the experts can guide you to the best mechanism suitable for ICANN's requirements for control and competence and the associated costs.